

extreme pretensions of a purely local interest; and in its general and unvarying abuse of the power intrusted to it by a confiding people.

6. That the people justly view with alarm the reckless extravagance which pervades every department of the Federal Government; that a return to rigid economy and accountability is indispensable to arrest the systematic plunder of the public treasury by favored partisans; while the recent startling developments of frauds and corruptions at the Federal metropolis, show that an entire change of administration is imperatively demanded.

7. That the new dogma that the Constitution, of its own force, carries slavery into any or all of the territories of the United States, is a dangerous political heresy, at variance with the explicit provisions of that instrument itself, with contemporaneous exposition, and with legislative and judicial precedent; is revolutionary in its tendency, and subversive of the peace and harmony of the country.

8. That the normal condition of all the territory of the United States is that of freedom: That, as our Republican fathers, when they had abolished slavery in all our national territory, ordained that "no persons should be deprived of life, liberty or property without due process of law," it becomes our duty, by legislation, whenever such legislation is necessary, to maintain this provision of the Constitution against all attempts to violate it; and we deny the authority of Congress, of a territorial legislature, or of any individuals, to give legal existence to slavery in any territory of the United States.

9. That we brand the recent reopening of the African slave trade, under the cover of our national flag, aided by perversions of judicial power, as a crime against humanity and a burning shame to our country and age; and we call upon Congress to take prompt and efficient measures for the total and final suppression of that execrable traffic.

10. That in the recent vetoes, by their Federal Governors, of the acts of the legislatures of Kansas and Nebraska, prohibiting slavery in those territories, we find a practical illustration of the boasted Democratic principle of Non-Intervention and Popular Sovereignty, embodied in the Kansas-Nebraska Bill, and a demonstration

of the deception and fraud involved therein.

11. That Kansas should, of right, be immediately admitted as a state under the Constitution recently formed and adopted by her people, and accepted by the House of Representatives.

12. That, while providing revenue for the support of the general government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interests of the whole country; and we commend that policy of national exchanges, which secures to the workingmen liberal wages, to agriculture remunerative prices, to mechanics and manufacturers an adequate reward for their skill, labor, and enterprise, and to the nation commercial prosperity and independence.

13. That we protest against any sale or alienation to others of the public lands held by actual settlers, and against any view of the free-homestead policy which regards the settlers as paupers or suppliants for public bounty; and we demand the passage by Congress of the complete and satisfactory homestead measure which has already passed the House.

14. That the Republican party is opposed to any change in our naturalization laws or any state legislation by which the rights of citizens hitherto accorded to immigrants from foreign lands shall be abridged or impaired; and in favor of giving a full and efficient protection to the rights of all classes of citizens, whether native or naturalized, both at home and abroad.

15. That appropriations by Congress for river and harbor improvements of a national character, required for the accommodation and security of an existing commerce, are authorized by the Constitution, and justified by the obligation of Government to protect the lives and property of its citizens.

16. That a railroad to the Pacific Ocean is imperatively demanded by the interests of the whole country; that the federal government ought to render immediate and efficient aid in its construction; and that, as preliminary thereto, a daily overland mail should be promptly established.

17. Finally, having thus set forth our distinctive principles and views, we invite the co-operation of all citizens, however differing on other questions, who substantially agree with us in their affirmance and support.

## THE SOUTH CAROLINA CONVENTION

SO FAR AS South Carolina was concerned, Lincoln's election was sufficient cause for seces-

sion. The South could not consider its interests secure in a nation ruled by a party which pro-

claimed the intention to impose territorial limits on slavery. No Republican declaration that the new administration would maintain a scrupulous respect for the rights of the states could gloss over the fact that Republican principles implied a gradual strangling of the South's "peculiar institution."

The South Carolina legislature met immediately and summoned a Convention—to be elected by popular vote—for December 17, 1860, to consider the state's relations to the Union. The Convention assembled and on December 20 voted unanimously to secede. By February 1, 1861, the six other states of the deep South—Georgia, Alabama, Florida, Mississippi, Louisiana, and Texas—had followed South Carolina's lead. On February 4, at Montgomery, Alabama, delegates from these states met and on February 8 they established the Confederate States of America. Jefferson Davis of Mississippi and Alexander H. Stephens of Georgia were elected President and Vice President respectively.

Various attempts at compromise had appeared meanwhile, one being a series of Constitutional amendments presented by Senator Crittenden of Kentucky and, another, a so-called peace convention called by Virginia on

February 4, 1861. Neither attracted much support; in the meantime Lincoln made no move. Indeed he waited a whole month after his inauguration before he was prepared to consider the question of federal forts in the Southern states. Most of these strongholds had been surrendered to the Confederates, but Fort Pickens at Pensacola and Fort Sumter at Charleston still held out, although their supplies were running low. At the end of March, Lincoln decided to relieve Fort Sumter and an expedition was sent out. On April 12, 1861, the Confederate batteries at Charleston opened fire on the fort—before the relief squadron had appeared—and two days later Major Anderson at Sumter surrendered. The war had begun.

On April 17, Virginia joined the Confederacy as did Arkansas on May 6, Tennessee on May 7, and North Carolina on May 20. The Border states of Maryland, Kentucky, Missouri, and Delaware did not throw in their lot with the seceding South; but in Virginia the western counties withdrew and formed West Virginia, which supported the Union.

The selection here reprinted, issued by the South Carolina Convention on December 24, 1860, is from a pamphlet printed at Charleston in 1860.

### *Declaration of the Immediate Causes Which Induce and Justify the Secession of South Carolina from the Federal Union*

THE PEOPLE of the State of South Carolina, in Convention assembled, on the 26th day of April, A. D., 1852, declared that the frequent violations of the Constitution of the United States, by the Federal Government, and its encroachments upon the reserved rights of the States, fully justified this State in then withdrawing from the Federal Union; but in deference to the opinions and wishes of the other slaveholding States, she forbore at that time to exercise this right. Since that time, these encroachments have continued to increase, and further forbearance ceases to be a virtue.

And now the State of South Carolina having resumed her separate and equal place among nations,

deems it due to herself, to the remaining United States of America, and to the nations of the world, that she should declare the immediate causes which have led to this act.

In the year 1765, that portion of the British Empire embracing Great Britain, undertook to make laws for the government of that portion composed of the thirteen American Colonies. A struggle for the right of self-government ensued, which resulted, on the 4th July, 1776, in a Declaration, by the Colonies, "that they are, and of right ought to be, FREE AND INDEPENDENT STATES; and that, as free and independent States, they have full power to levy war, conclude peace, contract alli-



ances, establish commerce, and to do all other acts and things which independent States may of right do."

They further solemnly declared that whenever any "form of government becomes destructive of the ends for which it was established, it is the right of the people to alter or abolish it, and to institute a new government." Deeming the Government of Great Britain to have become destructive of these ends, they declared that the Colonies "are absolved from all allegiance to the British Crown, and that all political connection between them and the State of Great Britain is, and ought to be, totally dissolved."

In pursuance of this Declaration of Independence, each of the thirteen States proceeded to exercise its separate sovereignty; adopted for itself a Constitution, and appointed officers for the administration of government in all its departments—Legislative, Executive and Judicial. For purposes of defence, they united their arms and their counsels; and, in 1778, they entered into a League known as the Articles of Confederation, whereby they agreed to entrust the administration of their external relations to a common agent, known as the Congress of the United States, expressly declaring, in the first article, "that each State retains its sovereignty, freedom and independence, and every power, jurisdiction and right which is not, by this Confederation, expressly delegated to the United States in Congress assembled."

Under this Confederation the War of the Revolution was carried on, and on the 3d September, 1783, the contest ended, and a definitive Treaty was signed by Great Britain, in which she acknowledged the Independence of the Colonies in the following terms:

"Article 1.—His Britannic Majesty acknowledges the said United States, viz: New Hampshire, Massachusetts Bay, Rhode Island and Providence Plantations, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, North Carolina, South Carolina and Georgia, to be FREE, SOVEREIGN AND INDEPENDENT STATES; that he treats them as such; and for himself, his heirs and successors, relinquishes all claims to the government, propriety and territorial rights of the same and every part thereof."

Thus were established the two great principles asserted by the Colonies, namely: the right of a State to govern itself; and the right of a people to abolish a Government when it becomes destructive of the ends for which it was instituted. And concurrent with the establishment of these principles, was the fact, that each Colony became

and was recognized by the mother Country as a FREE, SOVEREIGN AND INDEPENDENT STATE.

In 1787, Deputies were appointed by the States to revise the Articles of Confederation, and on 17th September, 1787, these Deputies recommended, for the adoption of the States, the Articles of Union, known as the Constitution of the United States.

The parties to whom this Constitution was submitted, were the several sovereign States; they were to agree or disagree, and when nine of them agreed, the compact was to take effect among those concurring; and the General Government, as the common agent, was then to be invested with their authority.

If only nine of the thirteen States had concurred, the other four would have remained as they then were—separate, sovereign States, independent of any of the provisions of the Constitution. In fact, two of the States did not accede to the Constitution until long after it had gone into operation among the other eleven; and during that interval, they each exercised the functions of an independent nation.

By this Constitution, certain duties were imposed upon the several States, and the exercise of certain of their powers were restrained, which necessarily implied their continued existence as sovereign States. But, to remove all doubt, an amendment was added, which declared that the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, respectively, or to the people. On 23d May, 1788, South Carolina, by a Convention of her people, passed an Ordinance assenting to this Constitution, and afterwards altered her own Constitution, to conform herself to the obligations she had undertaken.

Thus was established, by compact between the States, a Government, with defined objects and powers, limited to the express words of the grant. This limitation left the whole remaining mass of power subject to the clause reserving it to the States or to the people, and rendered unnecessary any specification of reserved rights.

We hold that the Government thus established is subject to the two great principles asserted in the Declaration of Independence; and we hold further, that the mode of its formation subjects it to a third fundamental principle, namely: the law of compact. We maintain that in every compact between two or more parties, the obligation is mutual; that the failure of one of the contracting parties to perform a material part of the agreement, entirely releases the obligation of the other; and that where no arbiter is provided, each party

is remitted to his own judgment to determine the fact of failure, with all its consequences.

In the present case, that fact is established with certainty. We assert, that fourteen of the States have deliberately refused for years past to fulfil their constitutional obligations, and we refer to their own Statutes for the proof.

The Constitution of the United States, in its 4th Article, provides as follows:

"No person held to service or labor in one State, under the laws thereof, escaping into another, shall, in consequence of any law or regulation therein, be discharged from such service or labor, but shall be delivered up, on claim of the party to whom such service or labor may be due."

This stipulation was so material to the compact, that without it that compact would not have been made. The greater number of the contracting parties held slaves, and they had previously evinced their estimate of the value of such a stipulation by making it a condition in the Ordinance for the government of the territory ceded by Virginia, which now composes the States north of the Ohio river.

The same article of the Constitution stipulates also for rendition by the several States of fugitives from justice from the other States.

The General Government, as the common agent, passed laws to carry into effect these stipulations of the States. For many years these laws were executed. But an increasing hostility on the part of the non-slaveholding States to the Institution of Slavery has led to a disregard of their obligations, and the laws of the General Government have ceased to effect the objects of the Constitution. The States of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, Illinois, Indiana, Michigan, Wisconsin and Iowa, have enacted laws which either nullify the Acts of Congress or render useless any attempt to execute them. In many of these States the fugitive is discharged from the service or labor claimed, and in none of them has the State Government complied with the stipulation made in the Constitution. The State of New Jersey, at an early day, passed a law in conformity with her constitutional obligation; but the current of anti-slavery feeling has led her more recently to enact laws which render inoperative the remedies provided by her own law and by the laws of Congress. In the State of New York even the right of transit for a slave has been denied by her tribunals; and the States of Ohio and Iowa have refused to surrender to justice fugitives charged with murder, and with inciting servile insurrection in the State of Virginia. Thus the

constitutional compact has been deliberately broken and disregarded by the non-slaveholding States, and the consequence follows that South Carolina is released from her obligation.

The ends for which this Constitution was framed are declared by itself to be "to form a more perfect union, establish justice, insure domestic tranquillity, provide for the common defence, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity."

These ends it endeavored to accomplish by a Federal Government, in which each State was recognized as an equal, and had separate control over its own institutions. The right of property in slaves was recognized by giving to free persons distinct political rights, by giving them the right to represent, and burthening them with direct taxes for three-fifths of their slaves; by authorizing the importation of slaves for twenty years; and by stipulating for the rendition of fugitives from labor.

We affirm that these ends for which this Government was instituted have been defeated, and the Government itself has been made destructive of them by the action of the non-slaveholding States. Those States have assumed the right of deciding upon the propriety of our domestic institutions; and have denied the rights of property established in fifteen of the States and recognized by the Constitution; they have denounced as sinful the institution of Slavery; they have permitted the open establishment among them of societies, whose avowed object is to disturb the peace and to eloign the property of the citizens of other States. They have encouraged and assisted thousands of our slaves to leave their homes; and those who remain, have been incited by emissaries, books and pictures to servile insurrection.

For twenty-five years this agitation has been steadily increasing, until it has now secured to its aid the power of the Common Government. Observing the *forms* of the Constitution, a sectional party has found within that article establishing the Executive Department, the means of subverting the Constitution itself. A geographical line has been drawn across the Union, and all the States north of that line have united in the election of a man to the high office of President of the United States whose opinions and purposes are hostile to slavery. He is to be entrusted with the administration of the Common Government, because he has declared that that "Government cannot endure permanently half slave, half free," and that the public mind must rest in the belief that Slavery is in the course of ultimate extinction.

This sectional combination for the subversion

of the Constitution, has been aided in some of the States by elevating to citizenship, persons, who, by the Supreme Law of the land, are incapable of becoming citizens; and their votes have been used to inaugurate a new policy, hostile to the South, and destructive of its peace and safety.

On the 4th March next, this party will take possession of the Government. It has announced, that the South shall be excluded from the common Territory; that the Judicial Tribunals shall be made sectional, and that a war must be waged against slavery until it shall cease throughout the United States.

The Guaranties of the Constitution will then no longer exist; the equal rights of the States will be lost. The slaveholding States will no longer have the power of self-government, or self-protection, and the Federal Government will have become their enemy.

Sectional interest and animosity will deepen the irritation, and all hope of remedy is rendered vain, by the fact that public opinion at the North has invested a great political error with the sanctions of a more erroneous religious belief.

We, therefore, the people of South Carolina, by our delegates, in Convention assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, have solemnly declared that the Union heretofore existing between this

State and the other States of North America, is dissolved, and that the State of South Carolina has resumed her position among the nations of the world, as a separate and independent State; with full power to levy war, conclude peace, contract alliances, establish commerce, and to do all other acts and things which independent States may of right do.

AN ORDINANCE TO DISSOLVE THE UNION BETWEEN  
THE STATE OF SOUTH CAROLINA AND OTHER STATES  
UNITED WITH HER UNDER THE COMPACT ENTITLED  
"THE CONSTITUTION OF THE UNITED STATES OF  
AMERICA."

*We, the People of the State of South Carolina, in Convention assembled, do declare and ordain, and it is hereby declared and ordained,*

That the Ordinance adopted by us in Convention, on the twenty-third day of May, in the year of our Lord one thousand seven hundred and eighty-eight, whereby the Constitution of the United States of America was ratified, and also, all Acts and parts of Acts of the General Assembly of this State, ratifying amendments of the said Constitution, are hereby repealed; and that the union now subsisting between South Carolina and other States, under the name of "The United States of America," is hereby dissolved.

# THE REPUBLICAN PROGRAM

*CHARLES F. DUNBAR*

LINCOLN AND HIS Republican counselors were sure it was to be a short war and the first volunteers were called up for only three months. But whether it was to be short or long, secession at least offered this opportunity: in the absence of Southern Democrats the Republicans could carry out their economic program. American industry could be protected; the American coasts linked by rail; the American territories settled by free farmers; and the American currency muddle brought into order, although this last had not been written into the 1860 platform.

Through the decade since California had become part of the Union, a Pacific Railroad had been a national issue. But North and South had divided on the location of the road and the ensuing struggle had helped delay congressional plans to grant a subsidy. In 1862, the struggle was over; the proponents of a Southern route no longer sat in Congress; a Pacific Railroad could be built along the Platte route into Utah where it would be joined by railroad construction moving eastward from the Pacific.

To help link the Missouri country and the East with California, the incorporators of the Union Pacific were to be lent funds in government bonds and given the right to take building materials from along their right of way. In addition, they were to receive—following the example set by the Illinois Central grant—alternate sections of the public lands on each side of the right of way, this time the grant running to ten alternate sections or twenty square miles for each mile of road built. Two years later, in 1864, amendments to the original charter subordinated the government's lien on the road from a first to a second mortgage.

In the years thereafter, a controlling element among the original incorporators transferred the work of building the road—and the assets of land and subsidy—to the Credit Mobilier, a company in which they themselves had a leading interest. The resources of the railroad corporation were exploited, Union Pacific stock became a speculators' football, and the government's effort to collect its debt met defeat in the courts (at least, until the nineties); political reputations were tarnished following Congressional investigations. But the road was built.

For three decades at least, long before a Pacific Railroad had been even a promoter's dream, proposals to make the public lands more available to actual settlers had been a subject of Congressional debate. That debate had considered many propositions: bills to grant preemptions; to price land according to its quality; to cede to the states the public lands within their borders; to lower prices and make donations to indigent settlers; to continue selling the public domain and divide the proceeds among the States; to grant homesteads on the public domain to actual settlers "without money and without price." All these proposals had as their declared object, the use of the public lands to promote the national welfare; according to its sponsors, each plan would check speculation and aid the pioneer.

A general preemption law was passed in 1841, along with a short-lived measure for distributing the proceeds of public land sales among the states. During the fifties, however, the scheme to grant homesteads to actual settlers gained increasing support. The proposition was opposed by Southern representatives, who feared the growth of a barrier to the ex-

tension of slavery in the territories; by some Eastern and Northern conservatives, who believed free homesteads might actually initiate a drain of labor from urban and industrial centers; and by land speculators and subsidy seekers, who opposed earlier homestead bills which had clauses forbidding grants to any but actual settlers. A homestead bill, without that limitation, actually passed in 1859, only to be vetoed by Buchanan.

In 1862, the Republican party set about fulfilling another of its platform's promises. A bill providing homesteads on the public domain was passed and signed. All male citizens and heads of families might claim 160 acres of unoccupied public land and, if they resided on their claims for five years, they were entitled to a patent without payment other than the land-office fee. Henceforth, any man might have a farm for the cultivating—unless the tract he had chosen was on land given to the states for education or to the railroads for subsidy; or lay within some speculator's claim or on a site which might be inside the elastic boundaries of an Indian tribe whose title had not yet been extinguished by government purchase.

Following the failure of the Second Bank of the United States to win renewal of its charter and the subsequent establishment of the Sub-Treasury system, the issue of currency had been left to individual banks. Those on the Atlantic seaboard maintained specie payment, by and large, except in periods of economic depression; Southern and Western banks were less rigid in their concept of soundness, however, and a "Banknote Detector" became part of every merchant's equipment.

The Whig party had fought Jackson's effort to eliminate the national bank; it had op-

posed the Sub-Treasury, too; and though proposals for a national system of banking played only a small part in the Republican campaign of 1860, old-line Whig supporters of such a system remained strong in the party. Lincoln's Secretary of the Treasury, Salmon P. Chase, pressed Congress to reform American currency issues on Whig principles by organizing a banking system for the nation; but the proposal received slight support until the needs of war reinforced the Secretary's arguments. Then the national banking system was organized, not primarily to assure sound banking practice but rather to provide a uniform banknote currency of reasonable stability and also to afford a market for the United States bonds on which the currency was to be based.

In the essay reprinted here, Charles Franklin Dunbar (1830-1900) describes the organization and the operation of the banking system which served the nation from the time of the Civil War up to the establishment of the Federal Reserve System. Though Dunbar was writing in the nineties, his work is an outgrowth of his activity as editor of the *Boston Daily Advertiser*, which he had made a leading New England newspaper in the decade when the national banking system was being organized. Dunbar was a Harvard professor of economics who had come to that post after varied experience in business, farming, the law, and journalism. As teacher and administrator in the seventies, when true university education was beginning in the United States, Dunbar helped formulate the canons of university instruction in economics.

The selection here reprinted is from Dunbar's *Economic Essays* (New York, 1904) and is published by permission of The Macmillan Company.

### *The Establishment of the National Banking System*

BY CHARLES F. DUNBAR

THE PLAN of establishing a system of national banks, whose notes should take the place of those issued by the state banks, was first presented in

definite shape in the report of the Secretary of the Treasury, at the beginning of December, 1861. Mr. Chase started in his discussion of the subject

from the consideration that by some process the advantage of issuing a paper circulation, amounting to not far from \$150,000,000 in the loyal states, ought to be transferred from the issuing banks to the government, and that the moment was opportune for such a change. He referred to the lack of system in the existing circulation, the insecurity of the bank-notes, the heavy losses suffered by the public, and especially to the recent misfortunes of banks in the Mississippi Valley, to enforce upon Congress the duty of protecting the public from such evils in the future. Two methods were suggested by him, in which all the objects aimed at in the proposed reform might be attained,—first, the issue of United States notes in place of bank-notes; and second, a national system for the issue of bank-notes, to be redeemed by the issuing banks, but secured by the pledge of United States bonds. The plan of issuing United States notes Mr. Chase rejected, believing that its possible disasters far outweighed its probable benefits. It is interesting to observe, in view of what soon followed, that the possible disasters which so powerfully affected his judgment were, the issue of notes under great temptation without adequate provision for redemption, the risk of “a depreciated, depreciating, and finally worthless paper money,” and “the immeasurable evils of dishonored public faith and national bankruptcy,” all then being “possible consequences of the adoption of a system of government circulation.”<sup>1</sup> Mr. Chase turned, therefore, in accordance no doubt with some predilections as well as with logic, to the second plan, a secured national bank currency, and recommended this for adoption by Congress.

A bank currency thus secured, Mr. Chase was careful to point out, besides its advantages of uniformity and security, would also offer the further advantage of a large demand for government securities and of facilities for obtaining the loans required by the war. In addition it would strengthen and diffuse the interest in preserving the Union, by making the government stocks the basis for the circulation in general use, and would also secure equality of value for the paper currency in every part of the Union. The device of securing bank-notes by a pledge of public stocks had been shown to be practicable and useful by the experience of New York and of some other states, and notes issued upon this system would now have a solid basis, in the large amount of specie retained in the United States by the requirement that duties on imports should be paid in coin. To these considerations it was wisely added that by offering inducements to existing

solvent institutions to adopt the national system, the transition from a heterogeneous and unsafe currency to one which should be uniform and sound could be effected almost imperceptibly and the evils of a great and sudden change could be avoided.

But although Mr. Chase believed that this plan might be perfected and passed by Congress before the end of the session of 1861–1862, and that it might be serviceable in obtaining the loans needed for the current year, it was after all a leisurely expedient for filling the treasury of a country in the throes of civil war, and events were already moving too fast for his calculations. Although his report made no reference to any immediate pressure on the Treasury and no suggestion of any new expedient for its rapid replenishment, the suspension of specie payment had already become as nearly certain as any future event can be. By some of the bank managers suspension had been contemplated for many weeks as the probable result of the locking up of their resources in government bonds and the gradual dissipation of their reserves by payments to the Treasury. By the first week in December this double process was so far advanced and the public disquiet was so great as to leave no doubt as to the issue in the minds of cool observers. The shock to credit was precipitated by a sudden alarm as to the possible war with England, and after some struggle the banks suspended on the 30th of December—earlier than they might have done had no special strain come upon them, but, after all, under the pressure of an irresistible movement, of which the cause was to be found in the policy pursued by the government in its dealings with them.

As a consequence of the suspension of specie payments, Mr. Chase found himself confronted by the demand for an issue of government notes, as a ready source of supply for the Treasury, before it was possible for him to draft a bill for a bank system. Interest at once centred upon this apparently unexpected demand, and the discussion had its issue in the first legal-tender act, approved February 25, 1862. By this act Congress, with a recommendation reluctantly given by the Secretary, adopted the expedient rejected by Mr. Chase in his report of December 9, and established a government currency, giving it, moreover, the quality of legal tender, which was probably not contemplated by him as possible, or as admissible even if possible. The plan of a bank currency, favored by Mr. Chase, then took the second place, and was finally thrown over to the next session of Congress.

<sup>1</sup> *Finance Report*, 1861, p. 18.

It was pointed out at the time, and there seems to have been great force in the suggestion, that all the advantages of a secured currency could be gained by a method much more expeditious than the elaboration of a complete system of national banks. A comparatively simple measure, by which existing banks should be required to secure their notes by the pledge of United States bonds, to be placed in the custody of the Treasury, would have made their issues uniform and safe, and would have made them large permanent investors in government bonds. The banks of the three cities, New York, Boston, and Philadelphia, taken by themselves, had at the date of the suspension of payments an aggregate capital of \$1,200,000,000, and against their liabilities for deposits and circulation amounting to \$181,600,000 held a specie reserve of \$44,000,000, or twenty-four per cent. The issues of these banks, it was pointed out, if secured by bonds, could be used by the government as safely as its own notes; the banks could be used as general depositories by the Treasury without risk; the inconveniences of the Independent Treasury, which adjusted itself with difficulty to the new conditions created by war, could be avoided; and the system which thus embraced the banks of the great cities could include without difficulty any bank anywhere that was strong enough to comply with the terms of such an arrangement. But whatever the financial merits of such an improvised national circulation may have been, it was not politically feasible. The existing banking interests were not then agreed as to the larger questions involved in their relations with the government; the public were not prepared for a revolution in the policy of the government with respect to banks; and finally the Secretary himself, having in mind the comprehensive scheme of a permanent national banking system, was little inclined to adopt a measure which, falling short of his aim, might be found ultimately to stand in his way. The proposition had little strength then and attracted but little attention.

When Mr. Chase again brought forward his plan,<sup>2</sup> at the beginning of the session of 1862-1863, it was under greatly altered conditions. Two legal-tender acts had been passed, giving authority for the issue of \$250,000,000 of United States notes, and of this amount all but \$27,000,000 had been paid out. The price of gold had been rising through the year and now stood above 130, and the prices of merchandise were advancing. It was estimated by the Secretary that the banks of the loyal states in the course of twelve months had increased their circulation from \$130,000,000 to

\$167,000,000, and their deposits from \$205,000,000 to \$354,000,000, making an increase of liabilities under both heads of about thirty per cent, and had increased their investments by not far from \$70,000,000. With great ingenuity of reasoning he contended that nearly the whole increase in the volume of the currency was "legitimately demanded by the changed condition of the country," but that if there were any redundancy it was due to the issues of the banks and not to the new element added to the circulation by the government.

In this state of things, with what appeared to most observers an alarming depreciation well under way, the need of funds for the immediate wants of the Treasury was again pressing. The sale of the bonds authorized by the legal-tender acts had been trifling, and comparatively little was to be counted upon from that source. Indeed, Congress had blocked the way to any important sales, by providing that the bonds should be sold by the Treasury at the market price only,<sup>3</sup> and that legal-tender notes should be exchangeable for bonds at the pleasure of the holder, thus in effect limiting the price of bonds to par, and leaving purchasers little chance for a profit. The repeal of these provisions Mr. Chase asked for and secured at the end of the session, together with authority for borrowing in other forms to a vast amount. It was not by his advice,<sup>4</sup> however, that Congress at the same time made its third resort to an issue of legal-tender notes, authorizing an increase of the active legal-tender currency to \$400,000,000, and the issue of an equal amount of legal-tender notes in other forms. He still maintained that an issue of government notes as a permanent system was open to grave objection, and that if it were used for temporary relief, it must be with a sparing hand; and he was more firmly persuaded than ever that the cure for the increasing disorder of the currency must be found in the resort to national bank-notes as the substitute for

<sup>2</sup> Chase construed the provision of the statute authorizing the sale of bonds "at the market value thereof," to prevent sales below the current New York quotations, though in Congress the view was expressed that market rate signified whatever price the government could secure. Chase was clearly right, for otherwise the provision in question would have had no reason for its insertion.

<sup>4</sup> As in the case of the earlier legal-tender acts, Chase readily acquiesced in the views of the majority in Congress. In January, 1863, he prepared a bill, in response to a request from the Senate Committee on Finance, as a substitute for a pending measure authorizing a further issue of greenbacks, and his substitute accepted that proposal, merely adding provisions to facilitate the sale of bonds.—*Cong. Globe*, p. 270.

<sup>2</sup> *Finance Report*, 1862, p. 17.

all other paper issues. He therefore pressed upon Congress at some length the considerations which weighed with him in favor of immediate legislation for this purpose.

A comparison of the reasons urged by Mr. Chase in 1862 with those briefly indicated by him in 1861 shows little change in his general estimate of the advantages promised by a permanent system of national banking. He adds in 1862 the consideration that under such a system the banks could be used safely as depositories in connection with the Independent Treasury, with advantages which perhaps experience had finally led him to rate more highly than at first. He also declares his opinion that in no way can the ultimate resumption of specie payment be made so certain as by the conversion of the entire paper circulation into an issue of bank-notes, secured by bonds bearing coin interest. On the whole the suggested advantages of the system, although substantial, are remote. Even the direct gain expected from the absorption of bonds by the banks is described as a sale amounting to \$250,000,000 or more "within a very few years," promising, however, very little aid during the current year, and perhaps not much for the next. In this part of his recommendation, Mr. Chase, in December, 1862, was looking far beyond the wants of the moment, to the time when the legal-tender notes, after serving their temporary purpose, should have disappeared, and the bank-notes should have become the sole and permanent currency; and so far did he carry his forecast of the future in this respect that he even took note of the probable payment of the national debt, and the necessity in this case of finding some new basis for the bank circulation. "But these considerations," he said, "may be for another generation."

The national currency bill, which by the strong influence of Mr. Chase and his supporters was passed by Congress and became a law February 25, 1863,<sup>5</sup> was framed on the familiar lines of the New York system, with details perfected by comparison with the banking systems of other states. It prescribed no limit for the number of national banking associations, but fixed the aggregate of notes to be issued by them at \$300,000,000. Of this aggregate one-half was to be apportioned among the states, territories, and the federal district in proportion to population, and one-half to have due regard to "existing banking capital, resources, and business." The notes were to be issued under the superintendence of a Comptroller of the Currency, to be secured by interest-bearing bonds of the United States, and to be redeemable in "law-

ful money," this term including legal-tender notes as well as specie. The banks were not required, however, to redeem their notes anywhere except at their own counters. Provision was made for the organization of banking associations by any applicants who should comply with certain conditions named in the act, and also for the conversion of state banks into national banking associations upon application in due form. By a provision inserted upon motion of a Senator from New York and but little discussed, it was also provided that any state bank, holding United States bonds to the extent of one-half its capital, might, upon transferring the bonds to the Treasurer of the United States, be authorized to issue notes to the amount of eighty per cent of the bonds transferred, the notes thus issued being supplied by the Comptroller of the Currency and payable at the Treasury in case of the failure of the issuing bank, in the same manner as other notes issued under the act.

This bill did not pass without difficulty. In the Senate the vote upon its passage was 23 yeas to 21 nays and in the House 78 yeas to 64 nays. These votes did not closely represent either political or sectional divisions, members of the same party from the same state being in some cases upon opposite sides. The bill had to encounter objections resting upon several different grounds. Not only was it opposed by some for political reasons and merely as a measure of the administration, but it was also viewed with great distrust by others, as a proposition for a vast financial consolidation, incomparably more formidable than the former Bank of the United States. The friends of the state banks eyed it with special jealousy, believing that the two systems, national and local, could not long stand side by side; and in this they were justified by the avowed purpose of Mr. Chase, and by the strong language of some of his adherents. And among those who might not have been averse to a national banking system under some conditions, there was doubt and apprehension as to the opportuneness and the details of this particular measure. While the bill was under discussion, Congress was maturing the third legal-tender act, and the premium on gold, which had passed thirty in December, was rising from fifty to sixty, passing the latter point before the vote on the bank bill was taken in the House. The Secretary had seen in the bill a means for prescribing more surely for ultimate specie payment; but, it was asked, what safe reliance could there be upon a system under which solvency meant simply payment in depreciating paper and the security against insolvency was found in bonds which

<sup>5</sup> 12 "Statutes at Large," p. 665.



were sinking with the paper? In ordinary times the bill probably could not have made its way against these various elements of opposition; but no inconsiderable part of its strength was due to the gloomy circumstances of the winter of 1862-1863. In Congress as well as among the people at large the resolution to stand by the government carried many to the point of relinquishing private objections to a measure declared necessary by the administration; and so the bank bill gained a majority, not resting altogether upon conviction.

Capital showed but little alacrity in organizing under the bank act of 1863. Seven months after its passage only 66 banks, with a capital of little over \$7,000,000, had begun operations, and ten months from its passage only 139, with a capital of \$14,740,000, reported to the Comptroller. The six states, Ohio, Indiana, Illinois, Michigan, Iowa, and Wisconsin, supplied 35 out of the 66 banks reporting in October, 1863, and 79 out of the 139 reporting in January, 1864. At the latter date New England had organized but 14 national banks, New York 16, and Pennsylvania 20. The Comptroller of the Currency regretted the opening of so many new banks in states where there was no deficiency of banks already. In general, in the first year under the new act, a few strong banks had been established, as the First and Second National Banks of New York, the First of Philadelphia, the First of Pittsburg, the First of Cincinnati, and the First of Chicago; but the existing banks for the most part held aloof, and new capital came in but sparingly. The report of the banks in the beginning of April, 1864, showed an investment by them in United States bonds of but \$41,175,100. At this time, however, the importance of the new system as a market for government securities had pretty well disappeared. The desire of the administration, expressed on every occasion, was that the great mass of state banks, and especially the strong institutions in the older states, should be reorganized as national banks. These banks had already become large holders of government obligations, for reasons quite unconnected with any possible future reorganization under the national system. The depression of business which continued through the years 1862 and 1863 had diminished the demand for regular commercial loans, and many banks with large resources at command found it difficult to procure the usual amount of business proper. Tempted by the high rate of income which securities bearing gold interest began to pay, and anxious to employ their funds, banks were investing freely in bonds of the United States and also in one-year certificates of indebtedness issued by the Treasury. In Novem-

ber, 1863, the banks of Massachusetts, though but three among them were national banks, owned government securities to the amount of over \$53,000,000; and the banks of New York, city and country, probably held similar investments to an amount not far below their capital of \$109,000,000. These holdings were unequally distributed, no doubt, but they far exceeded in the aggregate the amount of securities which the banks would have been required to deposit under the national bank act, so that the absorption of the existing banks by the national system then promised to create little additional demand for bonds.

The interest in the new system had in fact been concentrated entirely upon its practical merits and upon the expediency of substituting it for the state system. From the passage of the act of 1863 the Treasury had pursued the policy of actively stimulating the adoption of the national system. By a fortunate choice Mr. Hugh McCulloch, president of the Bank of the State of Indiana, had been appointed Comptroller of the Currency,—a gentleman widely known as an experienced and prudent manager and a strong advocate of a sound currency, originally opposed to the passage of the act, but finally convinced of its expediency and the wisdom of its leading provisions. It was characteristic of the policy of the Treasury as administered by McCulloch, that while the conversion of state banks into national was urged by every argument and persuasion, those sections of the bank acts which allowed the deposit of bonds and issue of notes without the abandonment of state charters remained dormant. The Comptroller, in a public circular, discouraged the use of these provisions, and although he admitted that if applications were made he "must obey the law," it is probable that his discouragement was in every case as emphatic as he found necessary for complete effect. It was his opinion that the state systems and the national could not long coexist; "one or the other will fully occupy the field," and he had no doubts which would and should be the survivor. The issue was made up, then, in 1863, and the real object of public debate was henceforward the national system, its merits, and its general adoption.

The year 1863 was therefore a year of discussion, fruitful in pamphlets, criticisms, and propositions for amending the act. In some cases writers, representing large existing interests, showed a deep distrust for the whole scheme, and were ready to see state bank issues withdrawn and the field of circulation temporarily occupied by Treasury notes, rather than embark the whole banking capital of the country in an experiment.

On all sides defects in the act were pointed out which justified the reluctance of solid banks to take out new charters under it. It was urged that the redemption of bank-notes at convenient centres was absolutely necessary in order to hold individual banks to any responsibility whatever and as a safeguard against general overissue. Provision for requiring the accumulation of surplus, omitted in the act of 1863, was called for to insure the strengthening of weak banks. It was pointed out that the act did not make the government responsible for the safety of the bonds deposited with it, and that the banks were therefore called upon to entrust a vast amount of securities to the fidelity of agents over whom they had no control. The act had authorized the Secretary of the Treasury to employ national banks as depositories of the public moneys at his discretion, but without any requirement as to security; and it was urged that although with proper provisions of this kind the banks could be used as depositories freely and the proved inconveniences and evils of the Independent Treasury greatly mitigated, any system of deposit banks without such provision must be liable to abuse and would probably be found dangerous. The act had also made no provision for the voluntary winding up of banks, so that the extrication of capital from an unprofitable business appeared to be impossible. In much that was written in that year it was either assumed or advised that the provisions for the issue of secured national notes by state banks, contained in the act of 1863, should be retained and brought into use; and the policy of discouragement pursued by the Comptroller of the Currency, already referred to, did not escape sharp criticism. There was also very general condemnation of the practice adopted by the Comptroller, apparently without warrant of law, of requiring all banks reorganizing under the national act to give up their distinctive names and become simply the First, Twentieth, or Fortieth National Bank of some town or city, as might happen. The names of established banks represent a good will and an earned reputation and credit. They are also a security for the public, who know banks by name for good or ill, but cannot have an equal familiarity with a list of mere numbers. The Comptroller had urged as a reason for requiring the use of numbers instead of names by reorganized banks that all who came under the system had an interest in "making it symmetrical and harmonious, as well as national," but it was difficult to believe that this was all; and, with the strong objection to partial loss of identity felt by the banks, there was also a certain vague impression that something

more than met the eye was implied in the proposition to make them all indistinguishable members of a vast system having its centre of control at Washington.

At the session of 1863-1864 Congress proceeded to revise the whole system in the light of the year's experience. A bill for that purpose was reported March 13, 1864, and from that time the subject was before Congress, in one form or another, until the final votes of the two Houses on May 31 perfected the measure, under which the national banking system was at last fully established. Many of the suggestions brought forward in popular discussion had been adopted by the Comptroller and recommended in his annual report at the beginning of the session, and others were adopted by Congress upon advice received from other sources. The law was completely recast. The provision for apportioning the \$300,000,000 of circulation among the states was repealed; it was provided that only registered bonds should be deposited as security, and that the property of the banks should thus be made safe while in the hands of the government; redemption of notes by every bank in some reserve city, as well as at its own counter, was provided for; the accumulation of a surplus equal to at least one-fifth of the capital of any bank was required; provision was made for requiring full security from banks used as depositories by the Treasury; the provisions as to the amount of capital and the terms on which a bank could begin its business were somewhat strengthened; and in short the whole system was made firmer and more harmonious. Without entering into the details of the legislation, it is enough to say that in the act of June 3, 1864, the national banking system took the form which in essentials it still retains.

In its provisions with respect to the state banks the act of 1864 made two significant changes. It provided expressly that state banks reorganizing under the national system might come in under their former names and without change in the amount of their shares. Special provision was even made for the exemption of stockholders from personal liability, under conditions intended to meet the case of the Bank of Commerce of New York and in fact applicable to no other.<sup>6</sup> The sections, however, which allowed the issue of secured national currency to state banks were omitted in the revised act, and thus Congress planted itself finally on the ground of an exclusively national system, and invited the adhesion of all existing

<sup>6</sup> This exemption applied to existing state banks having a capital of not less than \$5,000,000 and a surplus of twenty per cent.

banks, but rejected any connection short of complete responsibility to national authority. No special taxation was prescribed for the purpose of compelling the adhesion of distrustful or reluctant banks, but the language used by the advocates of the new law left little room for doubt that such measures would follow. For the present it was enough that the current of public opinion was setting in favor of the national system, and that many who had once opposed it now accepted the settled policy of the government and withdrew their opposition.

The hesitation of the state banks as to reorganizing under the national system began to give way in the summer of 1864. The discussion of the system in Congress and the adoption of the amended act removed many special objections to the law, and made it certain that final acquiescence would be the only condition on which the right of issue could be enjoyed. The financial strain of the war and the depreciation of the currency, shown by the price of gold, which fluctuated violently between 200 and 285, had put an end to all probability of an early recovery, and made a long dependence on legal-tender paper of uncertain value altogether likely. To adjust themselves to the present state of things began then to be thought wise by many who had hitherto maintained a merely expectant attitude. The announcements of intention to reorganize began to be frequent in June and July. At the close of November the Comptroller reported that 584 national banks were in existence, of which probably about one-third were reorganized state banks; and he was able to say that of the last 100 banks organized, 67 were state banks, that nearly all the banking capital of Philadelphia had then been reorganized, and that of the numerous applications then coming in most were for the conversion of old banks. It was noticeable, however, that at that time only one of the banks in New York City had reorganized, although several new banks had been established under the national system. Indeed, the Comptroller was plainly embarrassed by the hostile influence of the banks in New York; for after noticing the fear of some that the national banks might reproduce the evils of the weaker state banks, he remarked in thinly veiled language that these apprehensions, entertained "or professed to be entertained by the bankers of a state, in which a system similar in some of its main features was in practical operation, intimidated for a time the capitalists of other states, and retarded the reorganization of state banks." A group of New York banks, however, took steps looking in the direc-

tion of reorganization in December;<sup>7</sup> by the end of that month 21 of the Boston banks had reorganized, and the stream of applications soon became so strong that nearly 500 banks were chartered in the five months from December 1, 1864, a large proportion of them being state banks reorganized. The change from the old system to the new went on throughout the year 1865, and at the close of December was nearly complete, 1582 banks then reporting to the Comptroller, of which more than 900 were formerly state banks.

Several influences had expedited this change. In the states having a large amount of bank capital, enabling acts had been passed in many cases, authorizing incorporated banks to exchange their state charters for those of the United States without dissolution or winding up, thus preventing the expense, interruption to business, and loss incident to the collection and distribution of assets which would otherwise have been necessary upon the cessation of corporate existence under state laws, and making the reorganization a merely formal proceeding which left the identity of a bank unchanged. Acts of this sort were adopted in 1863 and 1864 by Massachusetts, Connecticut, and Pennsylvania, and early in 1865 by Maine, Rhode Island, New York, New Jersey, Maryland, and Indiana. In some states, also, as in Massachusetts, the neglect or disinclination of the legislature to repeal the special tax laid by the state upon its banks had a serious effect in turning the scale in favor of change.

Far more important, however, was the influence exerted by the belief that Congress would take steps to drive from the field all notes issued by state banks, and the passage of a measure for this purpose, to take full effect in 1866. The Comptroller of the Currency, in the first year of the new system, had refrained from advising any such action, but in his report of 1864 he clearly expressed the opinion that the time had come for Congress to compel the withdrawal of all state issues.

When the bill amending the internal revenue act came before the House at the session of 1864-1865 this subject was discussed in a somewhat desultory manner, and opinion was found to be evenly divided, but the House finally, on Feb-

<sup>7</sup> The Fourth National, the first bank with large capital to be organized in New York under the national system, was due to the influence of Jay Cooke; and the fear of the formation by him of a bank with a capital of \$50,000,000 is said by Mr. Cooke to have been a factor in the change of policy of the other banks. See "A Decade of American Finance," *North American Review*, November, 1902.—EDITOR'S NOTE.

ruary 18, by a vote of 68 to 67, inserted in the bill a section imposing a tax of ten per cent on all state bank notes paid out by any national or state bank after January 1, 1866. The bill then went to the Senate, and on March 1 a motion to strike out this section was refused by a vote of 20 to 22. On the next day the section was amended by substituting July 1 for January 1 as the date when the tax should take effect, and a motion to strike out was then refused, 17 to 21. This amendment was assented to by the House upon the report of a committee of conference, and the section accordingly became a part of the internal revenue amendment act, approved March 3, 1865. It was looked upon by all parties as the natural sequel of the national bank acts, delayed by doubt or policy for a time, but in fact a vital part of the scheme. It suppressed the state bank notes by destroying the profit of issue, but it avoided the severity of some propositions for the same object, which would have taxed outstanding circulation, or would have taken effect earlier; and this degree of moderation was apparently necessary for the success of the measure in either House. Adopted at a moment when the establishment of the national system was well advanced, the section stood as a threat for the next sixteen months; and when at last it took effect, the state bank issues were rapidly disappearing.

There is no doubt also that the high premium on gold from the spring of 1864 to the spring of 1865 had an important influence in bringing many banks to an immediate decision of the question of reorganization. When the suspension of specie payments took place, the banks in twenty-two loyal states, excluding those on the Pacific coast, held not far from \$76,000,000 in specie, of which the banks of Boston, New York, and Philadelphia held \$33,000,000. During the year 1862 the holdings for all the states referred to were above \$81,000,000, and the banks in the three cities at the end of the year had a specie reserve of \$48,000,000. The high rates for gold which prevailed throughout 1863 tempted many banks to sell their coin, and probably caused a considerable redistribution of that which remained; but in January, 1864, the banks in the three cities still held \$37,000,000. Gold was then quoted at one hundred and fifty-one, but it soon began to advance rapidly. On the 21st of June it passed two hundred, and with violent fluctuations remained above this point for most of the time until March, 1865. There was plainly a strong inducement for banks holding large stocks of gold but carrying on their business upon the paper basis, obliged to receive legal-tender notes in all payments, and not bound

to make payment in any other medium, to sell their specie for legal tender at these high rates. So long as any need of preparation for eventual specie payments had been felt to exist, or so long as further advance in the premium on gold was looked for, the specie might well be held; but as affairs stood in the summer of 1864 it is not surprising that the disposition to collect the profit to be made by the sale of gold began to strengthen.

Not a few of the more conservative managers of the banks saw with regret this tendency to place the whole business of banking upon the paper basis and were reluctant to admit that all the responsibility for facilitating an ultimate return to the specie standard could be thrown upon the government. From several quarters the proposition was made that the national banks should be required to accumulate as a specie reserve some part of the coin interest received by them on the bonds deposited to secure their notes. The New York Clearing-house banks proposed a small accumulation of this kind, which was rejected by the House without a count. In the Senate, Mr. Collamer of Vermont proposed that one-half of the coin interest should be added by the banks to their reserves until the entire reserve required by law should consist of coin. Amended so as to require but one-fourth of the coin interest to be so retained, Mr. Collamer's proposition was rejected by a vote of 15 to 20; and thus the amended law of 1864 went into effect in a form which completely ignored the question of providing for a return to specie. The banks sold their gold freely as a preparation for reorganizing under the national system, and the gold thus released swelled the strong current of exported metal, forced out of the country by the paper currency in the years 1864, 1865, and 1866. By July, 1865, the specie held by the banks in the three cities, Boston, New York, and Philadelphia, had sunk to \$20,000,000, and by January, 1866, the aggregate of specie held by the 1582 national banks of the United States was under \$20,000,000, and so far as shown by the quarterly reports it remained below this point until 1868. In some cases the profit reaped by the banks from the sale of their specie, with other undivided profits already in hand, was paid out as an extra dividend to stockholders upon the surrender of the state charters; in others it was used as the foundation for the surplus which national banks were required to accumulate to the extent of one-fifth of their capital, or was added to surplus funds already held; and in others still the opportunity was taken to increase capital by making stock dividends.

# SLAVERY AND EMANCIPATION

## GREELEY-LINCOLN CORRESPONDENCE

THE GREELEY-LINCOLN correspondence reflects the conflict between antislavery and Unionist sentiment which was to be continued through the decade following the Civil War. The objective of Unionist policy was the preservation of the nation. To that end, the slave Border states—Missouri, Kentucky, Delaware, and Maryland—must be kept from seceding. Military measures alone were not sufficient; the Border states must be conciliated and their property rights protected. In that spirit, federal military commanders were required to return fugitive slaves to their masters, and Frémont's proclamation freeing the slaves of rebel Missourians was rescinded. Not until 1862 did Congress provide against the army's return of fugitive, captured, or refugee slaves, although the administration remained more than considerate of the rights of the loyal slaveholders.

To antislavery men like Horace Greeley, the Lincoln administration was following a policy of rewarding its enemies and punishing its friends. Greeley stated this strongly in his *Tribune* editorial of August 19, 1862, in which he urged Lincoln to make emancipation a federal policy. Lincoln replied caustically, declaring that his purpose was to save the Union; emancipation was an irrelevant issue.

Yet, within a month, Lincoln issued his Preliminary Proclamation of Emancipation. The war was still being fought to preserve the Union, but compensation was offered those slave states, not in rebellion, which should provide for the immediate or even the gradual

abolition of slavery. From the first of January, 1863, all slaves in areas still in rebellion by that date were to be free.

Nearly all the South remained in rebellion by the date set; thereupon, the definitive Emancipation Proclamation was issued. Interestingly enough, not all parts of the original seceding states were included, for the whole of Tennessee and West Virginia and a number of parishes in Louisiana were excepted from the Proclamation. It was a military measure, to become effective largely in the future, since the South must be conquered before its slaves could be freed. Yet the Proclamation clarified the situation for the antislavery men at least; the bondsmen of rebels were not only to be freed but were to be received into the armed forces in a limited measure. The Proclamation said on this point: "such persons will be received into the armed services of the United States to garrison forts, positions, stations, and other places, and to man vessels of all sorts in said service." Thus, Lincoln was not yet ready to welcome Negroes as combatant troops. Yet, the very fact that slaves were urged to refrain from violence except in self-defense seemed a step in advance: to admit that a slave was entitled to defend himself implied self-ownership, and that meant the ultimate admission of freedom as a right, not a mere military necessity.

Greeley's editorial is reprinted from the New York *Tribune* for August 19, 1862; Lincoln's reply and the Preliminary Proclamation from contemporary newspapers.

*The Prayer of Twenty Millions*

BY HORACE GREELEY

TO ABRAHAM LINCOLN, PRESIDENT OF THE UNITED STATES:

Dear Sir: I do not intrude to tell you—for you must know already—that a great proportion of those who triumphed in your election, and of all who desire the unqualified suppression of the rebellion now desolating our country, are sorely disappointed and deeply pained by the policy you seem to be pursuing with regard to the slaves of rebels. I write only to set succinctly and unmistakably before you what we require, what we think we have a right to expect, and of what we complain.

I. We require of you, as the first servant of the Republic charged especially and preeminently with this duty, that you EXECUTE THE LAWS. . . .

II. We think you are strangely and disastrously remiss in the discharge of your official and imperative duty with regard to the emancipating provisions of the new Confiscation Act. Those provisions were designed to fight Slavery with Liberty. They prescribe that men loyal to the Union, and willing to shed their blood in her behalf, shall no longer be held, with the nation's consent, in bondage to persistent, malignant traitors, who for twenty years have been plotting and for sixteen months have been fighting to divide and destroy our country. Why these traitors should be treated with tenderness by you, to the prejudice of the dearest rights of loyal men, we cannot conceive.

III. We think you are unduly influenced by the councils, the representations, the menaces, of certain fossil politicians hailing from the Border Slave States. Knowing well that the heartily, unconditionally loyal portion of the white citizens of those States do not expect nor desire that Slavery shall be upheld to the prejudice of the Union—(for the truth of which we appeal not only to every Republican residing in those States, but to such eminent loyalists as H. Winter Davis, Parson Brownlow, the Union Central Committee of Baltimore, and to *The Nashville Union*)—we ask you to consider that Slavery is everywhere the inciting cause and sustaining base of treason: the most slaveholding sections of Maryland and Delaware being this day, though under the Union flag, in full sympathy with the rebellion, while the free labor portions of Tennessee and of Texas, though

writhing under the bloody heel of treason, are unconquerably loyal to the Union. . . . It seems to us the most obvious truth, that whatever strengthens or fortifies Slavery in the Border States strengthens also treason, and drives home the wedge intended to divide the Union. Had you, from the first, refused to recognize in those States, as here, any other than unconditional loyalty—that which stands for the Union, whatever may become of Slavery—those States would have been, and would be, far more helpful and less troublesome to the defenders of the Union than they have been, or now are.

IV. We think timid counsels in such a crisis calculated to prove perilous, and probably disastrous. It is the duty of a Government so wantonly, wickedly assailed by rebellion as ours has been, to oppose force to force in a defiant, dauntless spirit. It cannot afford to temporize with traitors, nor with semi-traitors. It must not bribe them to behave themselves, nor make them fair promises in the hope of disarming their causeless hostility. Representing a brave and high-spirited people, it can afford to forfeit any thing else better than its own self-respect, or their admiring confidence. For our Government even to seek, after war has been made on it, to dispel the affected apprehensions of armed traitors that their cherished privileges may be assailed by it, is to invite insult and encourage hopes of its own downfall. The rush to arms of Ohio, Indiana, Illinois, is the true answer at once to the rebel raids of John Morgan and the traitorous sophistries of Beriah Magoffin.

V. We complain that the Union cause has suffered, and is now suffering immensely, from mistaken deference to rebel Slavery. Had you, sir, in your Inaugural Address, unmistakably given notice that, in case the rebellion already commenced, were persisted in, and your efforts to preserve the Union and enforce the laws should be resisted by armed force, *you would recognize no loyal person as rightfully held in Slavery by a traitor*, we believe the rebellion would therein have received a staggering if not fatal blow. At that moment, according to the returns of the most recent elections, the Unionists were a large majority of the voters of the slave States. But they were composed in good part of the aged, the feeble, the wealthy, the timid—the young, the reckless, the aspiring, the adventurous, had already been largely lured by the gamblers and negro-traders, the politicians

by trade and the conspirators by instinct, into the toils of treason. Had you then proclaimed that rebellion would strike the shackles from the slaves of every traitor, the wealthy and the cautious would have been supplied with a powerful inducement to remain loyal. . . .

VI. We complain that the Confiscation Act which you approved is habitually disregarded by your Generals, and that no word of rebuke for them from you has yet reached the public ear. Frémont's Proclamation and Hunter's Order favoring Emancipation were promptly annulled by you; while Halleck's Number Three, forbidding fugitives from slavery to rebels to come within his lines—an order as unmilitary as inhuman, and which received the hearty approbation of every traitor in America—with scores of like tendency, have never provoked even your remonstrance. . . . And finally, we complain that you, Mr. President, elected as a Republican, knowing well what an abomination Slavery is, and how emphatically it is the core and essence of this atrocious rebellion, seem never to interfere with these atrocities, and never give a direction to your military subordinates; which does not appear to have been conceived in the interest of Slavery rather than of Freedom.

VIII. On the face of this wide earth, Mr. President, there is not one disinterested, determined, intelligent champion of the Union cause who does not feel that all attempts to put down the rebellion and at the same time uphold its inciting cause are preposterous and futile—that the rebellion, if crushed out to-morrow, would be renewed within a year if Slavery were left in full vigor—that army officers who remain to this day devoted to Slavery can at best be but half-way loyal to the Union—and that every hour of deference to Slavery is an hour of added and deepened peril to the Union. I appeal to the testimony of your ambassadors in Europe. It is freely at your service, not at mine.

Ask them to tell you candidly whether the seeming subserviency of your policy to the slaveholding, slavery-upholding interest, is not the perplexity, the despair of statesmen of all parties, and be admonished by the general answer!

IX. I close as I began with the statement that what an immense majority of the loyal millions of your countrymen require of you is a frank, declared, unqualified, ungrudging execution of the laws of the land, more especially of the Confiscation Act. That act gives freedom to the slaves of rebels coming within our lines, or whom those lines may at any time inclose—we ask you to render it due obedience by publicly requiring all your subordinates to recognize and obey it. The rebels are everywhere using the late anti-negro riots in the North, as they have long used your officers' treatment of negroes in the South to convince the slaves that they have nothing to hope from a Union success—that we mean in that case to sell them into a bitter bondage to defray the cost of the war. Let them impress this as a truth on the great mass of their ignorant and credulous bondmen, and the Union will never be restored—never. We cannot conquer ten millions of people united in solid phalanx against us powerfully aided by Northern sympathizers and European allies. We must have scouts, guides, spies, cooks, teamsters, diggers and choppers from the blacks of the South, whether we allow them to fight for us or not, or we shall be baffled and repelled. As one of the millions who would gladly have avoided this struggle at any sacrifice but that of principle and honor, but who now feel that the triumph of the Union is indispensable not only to the existence of our country but to the well-being of mankind, I entreat you to render a hearty and unequivocal obedience to the law of the land.

Yours,

Horace Greeley.

### *Lincoln's Reply to Greeley*

Executive Mansion, Washington, Aug. 22, 1862.

HON. HORACE GREELEY:

*Dear Sir*—I have just read yours of the 19th instant, addressed to myself through the *New York Tribune*.

If there be in it any statements or assumptions of fact which I may know to be erroneous, I do not now and here controvert them.

If there be any inferences which I may believe

to be falsely drawn, I do not now and here argue against them.

If there be perceptible in it an impatient and dictatorial tone, I waive it in deference to an old friend whose heart I have always supposed to be right.

As to the policy I "seem to be pursuing," as you say, I have not meant to leave any one in doubt. I would save the Union. I would save it in the shortest way under the Constitution.



The sooner the national authority can be restored the nearer the Union will be—the Union as it was.

If there be those who would not save the Union unless they could at the same time save slavery, I do not agree with them.

If there be those who would not save the Union unless they could at the same time destroy slavery, I do not agree with them.

My paramount object is to save the Union, and not either to save or destroy slavery.

If I could save the Union without freeing any slave, I would do it—if I could save it by freeing all the slaves, I would do it—and if I could do it by freeing some and leaving others alone, I would also do that.

What I do about slavery and the colored race, I do because I believe it helps to save this Union, and what I forbear, I forbear because I do not believe it would help to save the Union.

I shall do less whenever I shall believe what I am doing hurts the cause, and I shall do more whenever I believe doing more will help the cause.

I shall try to correct errors when shown to be errors, and I shall adopt new views so fast as they shall appear to be true views.

I have here stated my purpose according to my views of official duty, and I intend no modification of my oft-expressed personal wish that all men everywhere could be free. Yours,

A. Lincoln.

### *The Preliminary Emancipation Proclamation*

BY ABRAHAM LINCOLN

September 22, 1862.

I, ABRAHAM LINCOLN, President of the United States of America, and commander-in-chief of the army and navy thereof, do hereby proclaim and declare that hereafter, as heretofore, the war will be prosecuted for the object of practically restoring the constitutional relation between the United States and each of the States, and the people thereof, in which States that relation is or may be suspended or disturbed.

That it is my purpose, upon the next meeting of Congress, to again recommend the adoption of a practical measure tendering pecuniary aid to the free acceptance or rejection of all slave States, so called, the people whereof may not then be in rebellion against the United States, and which States may then have voluntarily adopted, or thereafter may voluntarily adopt, immediate or gradual abolishment of slavery within their respective limits; and that the effort to colonize persons of African descent with their consent upon this continent or elsewhere, with the previously obtained consent of the governments existing there, will be continued.

That on the first day of January, in the year of our Lord one thousand eight hundred and sixty-three, all persons held as slaves within any State or designated part of a State the people whereof shall then be in rebellion against the United States, shall be then, thenceforward, and forever free; and the Executive Government of the United States, including the military and naval authority thereof, will recognize and maintain the freedom of such persons, and will do no act or acts to repress such persons, or any of them,

in any efforts they may make for their actual freedom.

That the Executive will, on the first day of January aforesaid, by proclamation designate the States and parts of States, if any, in which the people thereof, respectively, shall then be in rebellion against the United States; and the fact that any State, or the people thereof, shall on that day be in good faith represented in the Congress of the United States by members chosen thereto at elections wherein a majority of the qualified voters of such State shall have participated, shall, in the absence of strong countervailing testimony, be deemed conclusive evidence that such State, and the people thereof, are not then in rebellion against the United States.

That attention is hereby called to an act of Congress entitled "An act to make an additional article of war," approved March 13, 1862, and which act is in the words and figure following:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter the following shall be promulgated as an additional article of war, for the government of the army of the United States, and shall be obeyed and observed as such:

ARTICLE —. All officers or persons in the military or naval service of the United States are prohibited from employing any of the forces under their respective commands for the purpose of returning fugitives from service or labor who may have escaped from any persons to whom such service or labor is claimed to be due; and any offi-



cer who shall be found guilty by a court martial of violating this article shall be dismissed from the service.

SEC. 2. And be it further enacted, That this act shall take effect from and after its passage.

Also to the ninth and tenth sections of an act entitled "An act to suppress insurrection, to punish treason and rebellion, to seize and confiscate property of rebels, and for other purposes," approved July 17, 1862, and which sections are in the words and figures following:

SEC. 9. And be it further enacted, That all slaves of persons who shall hereafter be engaged in rebellion against the Government of the United States, or who shall in any way give aid or comfort thereto, escaping from such persons and taking refuge within the lines of the army; and all slaves captured from such persons or deserted by them, and coming under the control of the Government of the United States; and all slaves of such persons found *on* [or] being within any place occupied by rebel forces and afterwards occupied by the forces of the United States, shall be deemed captives of war, and shall be forever free of their servitude, and not again held as slaves.

SEC. 10. And be it further enacted, That no slave escaping into any State, Territory, or the District of Columbia, from any other State, shall be delivered up, or in any way impeded or hin-

dered of his liberty, except for crime, or some offense against the laws, unless the person claiming said fugitive shall first make oath that the person to whom the labor or service of such fugitive is alleged to be due is his lawful owner, and has not borne arms against the United States in the present rebellion, nor in any way given aid and comfort thereto; and no person engaged in the military or naval service of the United States shall, under any pretense whatever, assume to decide on the validity of the claim of any person to the service or labor of any other person, or surrender up any such person to the claimant, on pain of being dismissed from the service.

And I do hereby enjoin upon and order all persons engaged in the military and naval service of the United States to observe, obey, and enforce, within their respective spheres of service, the act and sections above recited.

And the Executive will in due time recommend that all citizens of the United States who shall have remained loyal thereto throughout the rebellion shall (upon the restoration of the constitutional relation between the United States and their respective States and people, if that relation shall have been suspended or disturbed) be compensated for all losses by acts of the United States, including the loss of slaves.

In witness, etc.

Abraham Lincoln.

## LINCOLN AND THE RADICALS

THE CONFLICT between the Abolitionist and the Unionist elements in the Republican party grew as the Civil War continued and gradually merged into the later conflict between the Radical and the conciliationist factions of the Reconstruction period. Among the Radical Republicans, few are more interesting than Congressman George W. Julian of Indiana. Julian (1817-1899) was a Democrat by political origin, an antislavery man by conviction, and one of the earliest proponents of reform in the federal land system, in railroad management, and in the civil service. His speech of February 7, 1865, in the Committee of the Whole on the State of the Union is a long exercise in saying "I told you so." The war was all but over and the country must decide on its policy toward the seceded states; there

would be conflict between softness and a proper severity, as there had been conflict between unionism and antislavery. The President and the army had truckled to proslavery sentiment only to discover that the Radical course was correct. This had been a landholders' as well as a slaveholders' rebellion, Julian argued, and confiscation of rebels' property accorded with the laws of nations and the laws of war. The rebels' estates must be taken from them. But, once confiscated, those estates must not again fall into monopolist control; they should be divided among the freedmen and the poor whites, for "... nothing can atone for the woes and sorrows of this war but the thorough reorganization of society in these revolted states."

Repeatedly, in his *Political Recollections*

(New York, 1884), Julian tells of his efforts to win the passage of a law to confiscate the estates of seceders, a measure which he considered the true test of the seriousness of the Lincoln administration. As Julian puts it:

"The passage of the Southern Homestead Bill, however, could only prove a very partial measure without an enactment reaching the fee of rebel land owners, and I confidently anticipated the endorsement of such a measure by the Republican National Convention, which was to meet in Baltimore, on the seventh of June [1864]. I was much gratified when the National Union League approved it, in its Convention in that city the day before; and a resolution embodying it was also reported favorably by the sub-committee on resolutions of the National Republican Convention the next day. But the General Committee, on the motion of McKee Dunn of Indiana, always an incorrigible conservative, struck it out, much to the disappointment of the Republican masses. To me it was particularly vexatious, as the measure was a pet one of mine, having labored for it with much zeal, and in the confidence that the National Convention would approve it. . . .

"Having understood that Mr Lincoln had changed his opinion respecting the power of Congress to confiscate the landed estates of rebels, I called to see him on the subject on the 2nd of July, and asked him if I might say to the people that what I had learned on this subject was true, assuring him that I could make a far better fight for our cause if he would permit me to do so. He replied that when he prepared his veto of our law on the subject two years before, he had not examined the matter thoroughly, but that on further reflection, and on reading Solicitor Whiting's law argument, he had changed his opinion, and thought he would now sign a bill striking at the fee, if we would send it to him. I was much gratified by this statement, which was of service to the cause in the canvass; but, unfortunately, constitutional scruples respecting such legislation gained ground, and although both

Houses of Congress at different times endorsed the principle, it never became a law, owing to unavoidable differences between the President and Congress on the question of reconstruction. The action of the President in dealing with rebel land owners was of the most serious character. It paralyzed one of the most potent means of putting down the Rebellion, prolonging the conflict and aggravating its cost, and at the same time left the owners of large estates in full possession of their lands at the end of the struggle, who naturally excluded from the ownership of the soil the freedmen and poor whites who had been friendly to the Union; while the confiscation of life estates as a war measure was of no practical advantage to the Government or disadvantage to the enemy."

Julian's poor opinion of the Lincoln administration was not softened by time. Lincoln was too ready to conciliate in a situation which called for root-and-branch reform: the Southern planter had made the society which culminated in the rebellion; if the results of suppressing that rebellion were to be secure, the planter class must be attacked at the economic base of its power.

In something of Julian's spirit, though without his concern for the freedman and the loyal poor whites of the South, Benjamin F. Wade of Ohio and Henry Winter Davis, representative from Maryland, gave their names to legislation seeking to make certain that the defeated South should not resume its place in Congress until it had definitely and finally abolished slavery and repudiated the Confederate debt. To achieve this purpose, Congress passed a bill designed to remove the problem of restoring the Union from the executive to the legislative sphere.

For Lincoln had initiated a program of his own. As early as December, 1863, he had offered pardon and the restoration of property to Confederates who would take a prescribed oath of loyalty. When the number of these oath-takers came to equal one tenth of the voting population of 1860, a political organization

set up by them might be recognized as a state government.

To the Radicals, such a policy seemed but another instance of a government's rewarding its foes. But when the Wade-Davis bill reached him—only a few hours before the end of the session—Lincoln, instead of using the pocket veto, chose to issue a proclamation giving his reasons for refraining from signing the bill. He was not entirely opposed to it as one possible mode of Reconstruction, but he did not wish to be committed to an exclusive policy: much good had been accomplished by his own plan, that good should not be sacrificed.

Lincoln's reasoning evoked an ill-tempered reply from the men who had given their names to the bill. Davis had long been opposed to a Republican renomination for Lincoln. When the effort to substitute Chase or Frémont had failed, Davis had hoped for a vigorous platform from the Democrats. Even the Democratic declaration that the war was a failure did not alter Davis's conviction: General

George B. McClellan, the Democratic nominee, would probably carry New York and Pennsylvania against Lincoln. The Wade-Davis Manifesto, in answer to Lincoln's proclamation, is part of the Radicals' continued campaign to push another candidate into Lincoln's place. The message was entirely improper, if not positively illegal, the Manifesto declared. The governments organized under Lincoln's plan were mere shadows and in no way worthy of trust. By his support of them, the President had, in effect, declared that "his wisdom and prudence" were to be the country's only safeguard against a renewal of the rebellion in the areas he decided were fit to return to the Union. "A more studied outrage on the legislative authority of the people has never been perpetrated," said the Manifesto. Thus the stage was already set in 1864 for the bitter struggle over Reconstruction.

The selection reprinted here is from Julian's *Speeches on Political Questions* (New York, 1872).

### *Radicalism and Conservatism—the Truth of History Vindicated*

BY GEORGE W. JULIAN

PERHAPS NO task could be more instructive or profitable, in these culminating days of the rebellion, than a review of the shifting phases of thought and policy which have guided the administration in its endeavors to crush it. Such a retrospect will help us vindicate the real truth of history, both as to measures and men. It will bring out, in the strongest colors, the contrast between Radicalism and Conservatism, as rival political forces, each maintaining a varying control over the conduct of the war. It will, at the same time, point out and emphasize those pregnant lessons of the struggle which may best supply the government with counsel in its further prosecution. The faithful performance of this task demands plainness of speech; and I shall not shrink from my accustomed use of it, in the interests of truth and freedom.

At the beginning of this war, Mr. Chairman, neither of the parties to it comprehended its character and magnitude. Its actual history has been

an immeasurable surprise to both, and to the whole civilized world. The rebels evidently expected to make short work of it. Judging us by our habitual and long-continued submission to Southern domination, and confiding in the multiplied assurances of sympathy and help which they had received from their faithful allies in the North, they regarded the work of dismemberment as neither difficult nor expensive. They did not dream of the grand results which have proceeded from their mad enterprise. Nor does their delusion seem to have been at all strange or unnatural. Certainly, it was not more remarkable than the infatuation of the administration, and its conservative friends. The government understood the conflict as little, and misunderstood it as absolutely, as its foes. This, sir, is one of the lessons of the war which I think it worth while to have remembered. This revolt, it was believed, was simply a new and enlarged edition of Southern bluster. The government did not realize the inexorable necessity of

actual war, because it lacked the moral vision to perceive the real nature of the contest. To every suggestion of so dire an event it turned an averted face and a deaf ear. It hoped to restore order by making a show of war, without actually calling into play the terrible enginery of war. It trusted in the form, without the power of war, just as some people have trusted in the form, without the power of godliness. It will be remembered that just before the battle of Ball's Bluff, General McClellan ordered Colonel Stone to "make a slight demonstration against the rebels," which might "have the effect to drive them from Leesburg." The government seems to have pursued a like policy in dealing with the rebellion itself. "A slight demonstration," it was believed, would "have the effect" to arrest the rebels in their madness, and reestablish order and peace in about "sixty days," without allowing them to be seriously hurt, and without unchaining the tiger of war at all. The philosophy of General Patterson, who kindly advised that the war on our part should be "conducted on peace principles," was by no means out of fashion with our rulers, and the conservative leaders of opinion generally. Even the Commander-in-chief of our army and navy scouted the idea of putting down the rebellion by military power. He thought the country was to be saved by giving up the principles it had fairly won by the ballot in the year 1860, and to the maintenance of which the new administration was solemnly pledged. He believed in "conciliation," in "compromise,"—the meanest word in the whole vocabulary of our politics, except, perhaps, the word "conservative,"—and had far less faith in the help of bullets and bayonets in managing the rebels than in the power of our brotherly love to melt their susceptible hearts, and woo them back, gently and lovingly, to a sense of their madness and their crime. Our distinguished Secretary of State declared that "none but a despotic or imperial government would seek to subjugate thoroughly disaffected sovereignties." The policy of coercing the revolted States was disavowed by the President himself in his message to Congress of July, 1861.

Nor did the Legislative Department of the government, at that time, disagree with the Executive. On the 22d day of July of the same year,—and I say it with sorrow and shame,—on the very morning following the first battle of Bull Run, the House of Representatives, speaking in the form of solemn legislative resolves, as did the Senate two days later, declared that it was not the purpose of the government to "subjugate" the villains who began this work of organized and inexcusable

rapine and murder. Indeed, it was not then the fashion to call them villains. In the very polite and gingerly phrase of the times they were styled "our misguided fellow-citizens," and "our erring Southern brethren," while the rebel States themselves were lovingly referred to as "our wayward sisters." The truth is, that for about a year and a half of this war the policy of tenderness to the rebels so swayed the administration that it seemed far less intent upon crushing the rebellion by arms, than upon contriving "how *not* to do it." . . . Not the spirit of war, but the spirit of peace, seemed to dictate our principles of action and measures of policy toward the men who had resolved, at whatever hazard or sacrifice, to break up the government by force. This policy, sir, had it been continued, would have proved the certain triumph of the rebel cause. With grand armies in the field, and all the costly machinery of war in our hands, our opportunities were sinned away by inactivity and delay, while the rebels gathered strength from our indecision and weakness. A major-general in our army, and as brave and patriotic a man as lives, said to me in the early stages of the war that the grand obstacle to our success was the lack of resentment on our part toward traitors. He said we did not adequately hate them; and he urged me, if in any degree in my power, to breathe into the hearts of the people in the loyal States a spirit of righteous indignation and wrath toward the rebels, commensurate with the unmatched enormity of their deeds. This spirit, Mr. Chairman, was a military necessity. The absence of it furnishes the best explanation of our failure during the period referred to, while its acceptance by the government inaugurated the new policy which has ever since been giving us victories.

That this sickly policy of an inoffensive war has naturally prolonged the struggle, and greatly augmented its cost in blood and treasure, no one can doubt. That it belongs, with its entire legacy of frightful results, exclusively to the conservative element in our politics, which at first ruled the government, is equally certain. The radical men saw at first, as clearly as they see to-day, the character and spirit of this rebel revolt. The massacre at Fort Pillow, the starvation of our soldiers at Richmond, and the whole black catalogue of rebel atrocities, have only been so many verified predictions of the men who had studied the institution of slavery, and who regarded the rebellion as the natural fruit and culmination of its Christless career. And hence it was that in the very beginning of the war, radical men were in favor of its vigorous prosecution. They knew the foe with whom we had to wrestle. . . . They knew that

in struggling with such a foe we were shut up to one grand and inevitable necessity and duty, and that was entire and absolute *subjugation*. All this was avowed and insisted upon by the earnest men who understood the nature of the conflict, and as persistently disavowed and repudiated by the government and its conservative advisers.

But a time came when its lessons had to be unlearned. In the school of trial it was forced to admit that war does not mean peace, but exactly the opposite of peace. Slowly, and step by step, it yielded up its theories and brought itself face to face with the stern facts of the crisis. The government no longer gets frightened at the word subjugate, because of its literal etymology, but is manfully and successfully endeavoring to place the yoke of the Constitution upon the unbaptized necks of the scoundrels who have thrown it off. The war is now recognized as a struggle of numbers, of desperate physical violence, to be fought out to the bitter end, without stopping to count its cost in money or in blood. Both the people and our armies, under this new dispensation, have been learning how to hate rebels as Christian patriots ought to have done from the beginning. They have been learning how to hate rebel sympathizers also, and to brand them as even meaner than rebels outright. They regard the open-throated traitor, who stakes his life, his property, his all, upon the success of his conspiracy against the Constitution and the rights of man, as a more tolerable character than the skulking miscreant who in his heart wishes the rebellion God-speed, while masquerading in the hypocritical disguise of loyalty. Had the government been animated by a like spirit at the beginning of the outbreak, practically accepting the truth that there can be no middle ground between treason and loyalty, rebel sympathizers would have given the country far less trouble than they have done. A little wholesome severity, summarily administered, would have been a most sovereign panacea. On this point the people were in advance of the administration, and they are to-day. Their earnestness has not yet found a complete and authoritative expression in the action of the government. A system of retaliation, which would have been a measure of real mercy, has not yet been adopted. Our cause is not wholly rescued from the control of conservative politicians and generals. Much remains to be done; but far more, certainly, has already been accomplished. The times of brotherly love toward rebels in arms have gone by forever. Such men as McClellan, Buell, and Fitz-John Porter, are generally out of the way, and men who believe in *fighting* rebels are in active command. This revolution in

the war policy of the government, as already observed, was absolutely necessary to the salvation of our cause; and the country will not soon forget those earnest men who at first comprehended the crisis and the duty, and persistently urged a vigorous policy, suited to remorseless and revolutionary violence, till the government felt constrained to embrace it.

But a vigorous prosecution of the war, Mr. Chairman, was not enough. While this struggle is one of numbers and of violence, it is likewise, and still more emphatically, a war of ideas; a conflict between two forms of civilization, each wrestling for the mastery of the country. No one now pretends to dispute this, nor is it easy to understand how any one could ever have failed to perceive it. But the government, in the beginning, did not believe it. It tried, with all its might, not to believe it, and to persuade the world to disbelieve it. It insisted that the real cause of the war did not cause it at all. The rebellion was the work of chance; a stupendous accident, leaping into life full grown, without father or mother, without any discoverable genesis. It was a huge, black, portentous, national riot, which must be suppressed, but nobody was to be allowed to say one word about the causes which produced it, or the issues involved in the struggle. Silence was to be our supreme wisdom. Hence it was that the government, speaking through its high functionaries, declared that the slavery question was not involved in the quarrel, and that every slave in bondage would remain in exactly the same condition after the war as before. Hence it was that, when a celebrated proclamation was issued, giving freedom to the slaves of rebels in Missouri, it was revoked by the government in order to please the State of Kentucky, and placate the power that began the war. Hence, under General Halleck's "Order No. 3," which remained in force more than a year, the swarms of contrabands who came thronging to our lines, tendering us the use of their muscles and the secrets of the rebel prison-house, were driven away by our commanders. Hence it was that our soldiers were compelled to serve as slave-hounds in chasing down fugitives and sending them back to rebel masters, and that General McClellan, who always loved slavery more than he loved his country, and who declared he would put down slave insurrections "with an iron hand," was continued as Commander-in-chief of our armies long months after the country desired to spew him out. Hence, likewise, so many thousands of our soldiers were compelled to dig and ditch in the swamps of the Chickahominy till the cold sweat of death gathered on the handle

of the spade, while swarms of stalwart negroes, able to relieve them and eager to do so, were denied the privilege, lest it should offend the nostrils of democratic gentility, and give aid and comfort to the abolitionists. Hence it was that the President, instead of striking at slavery as a military necessity, and while rebuking that policy in his dealings with Hunter and Frémont, was at the same time so earnestly espousing chimerical projects for the colonization of negroes, coupled with the policy of gradual and compensated emancipation, which should take place some time before the year 1900, if the slaveholders should be willing. Hence it was that very soon after the administration had been installed in power it began to lose sight of the principles on which it had triumphed in 1860, allowing four fifths of the offices of the army and navy to be held by men of known hostility to those principles, while the various departments of the government in this city were largely filled by rebel sympathizers. Hence it was that for nearly two years of this war the government, while smiting the rebels with one hand, was with the other guarding the slave property and protecting the constitutional rights of the men who had renounced the Constitution, and ceased to have any rights under it save the right to its penalty against traitors. Hence it was that during the greater part of this time the administration stood upon the platform and urged the policy of "The Constitution as it is and the Union as it was," which the nation so overwhelmingly repudiated in the late Presidential contest. Hence it was, finally, that the songs of Whittier could not be sung in our armies; that slavery was everywhere dealt with by the government as the dear child of its love; and that our rulers seemed, with matchless impiety, to hope for the favor of God without laying hold of the *conscience* of our quarrel, and by coolly kicking it out of doors! Sir, I believe it safe to say that this madness cost the nation the precious sacrifice of fifty thousand soldiers, who have gone up to the throne of God as witnesses against the horrid infatuation that so long shaped the policy of the government in resisting this slaveholders' rebellion.

But here, again, Mr. Chairman, the government had to unlearn its first lessons. Its purpose to crush the rebellion and spare slavery was found to be utterly suicidal to our cause. It was a purpose to accomplish a moral impossibility, and was therefore prosecuted, if not conceived, in the interest of the rebels. It was an attempt to marry treason and loyalty; for the rebellion *is* slavery, armed with the powers of war, organized for wholesale schemes of aggression, and animated by the over-

flowing fullness of its infernal genius. The strength of our cause lies in its righteousness, and therefore no bargain with the devil could possibly give it aid. Through great suffering and sacrifice, individual and national, our rulers learned that there is but "one strong thing here below, the just thing, the true thing," and that God would not allow these severed States to be reunited without the abandonment, forever, of our great national sin. This was a difficult lesson, but as it was gradually mastered the government "changed its base." It became disenchanted. Congress took the lead in ushering in the new dispensation. A new article of war was enacted, forbidding our armies from returning fugitive slaves. Slavery was abolished in the District of Columbia, and prohibited in our national Territories, where it had been planted by the dogma of popular sovereignty and the Dred Scott decision. Our federal judiciary was so reorganized as to make sure this anti-slavery legislation of Congress. The confiscation of slaves was provided for, and freedom offered to all who would come over and help us, either as laborers or soldiers, thus annulling the famous or rather *infamous* order of General Halleck, already referred to. The Fugitive Slave Law was at first made void as to the slaves of rebels, and finally repealed altogether, with the old law of 1793. The coastwise slave-trade, a frightful system of home piracy, carried on by authority of Congress since the year 1807, was totally abolished. The right of testimony in our federal courts, and to sue and be sued, was conferred upon negroes. Their employment as soldiers was at last systematically provided for, and their pay at length made the same as that of white soldiers. The independence of Hayti and Liberia was recognized, and new measures taken to put an end to the African slave-trade. In thus wiping out our code of national slave laws, acknowledging the manhood of the negro, and recognizing slavery as the enemy of our peace, Congress emphatically rebuked the policy which had sought to ignore it, and to shield it from the destructive hand of the war instigated by itself; while it opened the way for further and inevitable measures of justice, looking to his complete emancipation from the dominion of Anglo-Saxon prejudice, the repeal of all special legislation intended for his injury, and his absolute restoration to equal rights with the white man as a citizen as well as a soldier.

Meanwhile, the President had been giving the subject his sober second thought, and reconsidering his position at the beginning of the conflict. Instead of affirming, as at first, that the question of slavery was not involved in the struggle, he grad-

ually perceived, and finally admitted, that it was at once the cause of the war and the obstacle to peace. Instead of resolving to save the Union *with* slavery, he finally resolved to save the Union *without* it, and by its destruction. Instead of entertaining the country with projects of gradual and distant emancipation, conditioned upon compensation to the master and the colonization of the freedmen, he himself finally launched the policy of immediate and unconditional liberation. Instead of recoiling from "radical and extreme measures," and "a remorseless revolutionary conflict," he at last marched up to the full height of the national emergency, and proclaimed "to all whom it may concern," that slavery must perish. Instead of a constitutional amendment for the purpose of eternizing the institution in the Republic, indorsed by him in his inaugural message, he became the zealous advocate of a constitutional amendment abolishing it forever. Instead of committing the fortunes of the war to pro-slavery commanders, whose hearts were not in the work, he learned how to dispense with their services, and find the proper substitutes. These forward movements were not ventured upon hastily, but after much hesitation and apparent reluctance. Not suddenly, but following great deliberation and many misgivings, he issued his proclamation of freedom. Months afterward he doubted its wisdom; but it was a grand step forward, which at once severed his relations with his old conservative friends, and linked his fortunes thenceforward to those of the men of ideas and of progress. Going hand in hand with Congress in the great advance measures referred to, or acquiescing in their adoption, the whole policy of the administration has been revolutionized. Abolitionism and loyalty are now accepted as convertible terms, and so are treason and slavery. Our covenant with death is annulled. Our national partnership with Satan has been dissolved; and just in proportion as this has been done, and an alliance sought with divine Providence, has the cause of our country prospered. In a word, Radicalism has saved our nation from the political damnation and ruin to which Conservatism would certainly have consigned it; while the mistakes and failures of the administration stand confessed in its new policy, which alone can vindicate its wisdom, command the respect and gratitude of the people, and save it from humiliation and disgrace.

Mr. Chairman, these lessons of the past suggest the true moral of this great conflict, and make the way of the future plain. They demand a vigorous prosecution of the war by all the powers of war, and that the last vestige of slavery shall be

scourged out of life. Let the administration falter on either of these points, and the people will disown its policy. They have not chosen the President for another term through any secondary or merely personal considerations. In the presence of so grand an issue, men were nothing. They had no faith in General McClellan and the party leaders at his heels. They had little faith in the early policy of Mr. Lincoln, when Democratic ideas ruled his administration, and the power of slavery held him in its grasp. Had his appeal to the people been made two years earlier, he would have been as overwhelmingly repudiated as he has been gloriously indorsed. The people sustain him now, because of their assured faith that he will not hesitate to execute their will. In voting for him for a second term, they voted for liberating and arming the slaves of the South to crush out a slaveholders' rebellion. They voted that the Republic shall live, and that whatever is necessary to save its life shall be done. They voted that slavery shall be eternally doomed, and future rebellions thus made impossible. They voted, not that Abraham Lincoln can save the country, but that *they* can save it, with him as their servant. That is what was decided in the late elections. I have participated, somewhat actively, in seven Presidential contests, and I remember none in which the element of personal enthusiasm had a smaller share than that of last November. One grand and overmastering resolve filled the hearts and swayed the purposes of the masses everywhere, and that was the rescue of the country through the defeat of the Chicago Platform and conspirators. In the execution of that resolve they lost sight of everything else; but should the President now place himself in the people's way, by reviving the old policy of tenderness to the rebels and their beloved institution, the loyal men of the country will abandon his policy as decidedly as they have supported it generously. They have not approved the mistakes either of the legislative or executive department of the government. They expect that Congress will pass a bill for the confiscation of the fee of rebel landholders, and they expect the President will approve it. They expect that Congress will provide for the reconstruction of the rebel States by systematic legislation, which shall guarantee Republican governments to each of those States and the complete enfranchisement of the negro; and they will not approve, as they have not approved, of any executive interference with the people's will as deliberately expressed by Congress. They expect that Congress will provide for parceling out the forfeited and confiscated lands of rebels in small homesteads among



the soldiers and seamen of the war, as a fit reward for their valor, and a security against the ruinous monopoly of the soil in the South; and they will be disappointed should this great measure fail through the default either of Congress or the Executive. They demand a system of just retaliation against the rebels for outrages committed upon our prisoners; that a policy of increasing earnestness and vigor shall prevail till the war shall be ended; and that no hope of peace shall be whispered save on condition of an absolute and unconditional surrender to our authority; and the government will only prolong the war by standing in the way of these demands. This is emphatically the people's war; and it will not any longer suffice to say that the people are not ready for all necessary measures of success. The people would have been ready for such measures from the beginning, if the government had led the way. At every stage of the contest they have hailed with joy every earnest man who came forward, and every vigorous war measure that has been proposed. So long as the war was conducted under the counsels of Conservatives, and in the interests of slavery, the people clamored against the administration; but just so soon as the government entered upon a vigorous policy, and proclaimed war against slavery, the people began to shout for the Union and liberty. In the fall of 1862, before the administration was divorced from its early policy, the Union party was overwhelmed at the polls. But we triumphed the next year, and gloriously triumphed last year, because the government yielded to the popular demand. The plea often urged, that the people were not ready, is less a fact than a pretext. The men who loved slavery more than they loved the Union were never ready for radical measures. They are not ready to-day. On the other hand, the men who were all the while unconditionally for the Union would have sustained the administration far more heartily in the most thorough and sweeping war measures, than they sustained its policy of delaying those measures to the last hour. . . .

The revocation of the first anti-slavery proclamation of this war chilled the heart of every earnest loyalist in the land, and came like a trumpet-call to the pro-slavery hosts to rally and stand together. They obeyed it, and from that event dates the birth of organized Copperhead Democracy. The rebels of the South and their sympathizers in the North felt that they had gained an ally in the President. Had he sustained that measure, would not its moral effect have been at least as potent on the other side? Had his official name and sanction been as often given to the

cause of Radicalism as they were lent to that of pro-slavery Conservatism, would not the country have been much sooner prepared for the saving and only policy? If he had said, early in the struggle, "to all whom it may concern," what he says now, that slavery is the nation's enemy, and therefore must be destroyed, instead of sheltering it under the Constitution and sparing it from the hand of war, how grandly could he have "organized victory," and multiplied himself among the people! Sir, our traditional respect for slavery and slaveholders was our grand peril. It stood up as an impassable barrier in the way of any successful war for the Union. So long as it was allowed to dominate, it unnerved the arm of the government and deadened the spirit of the people. It made the Old World our enemy, and threatened us with foreign war. The mission of the government was not to make this feeling stronger by deferring to it, or to doom the country to a prolonged war and deplorable sacrifices as the best means of teaching the people the truth. No. The country needed a speedy exodus from the bondage of false ideas, and the government should have pointed the way. A frank statement by it of the real issue of the war, without any disposition to cover up the truth; an unmistakable hostility to slavery as the organized curse, without which the rebellion would have been impossible; and the timely utterance in its leading State papers of a few bold and spirit-stirring words which might have been "half battles," appealing to the courage and manhood of the nation, would have gone far to educate the judgment and conscience of the people, and command their enthusiastic espousal of whatever measures would promise most speedily to end the struggle and economize its cost in property and life.

Mr. Chairman, I take no pleasure, certainly, in thus freely discussing the policy of the government in its endeavors to meet its great responsibilities during this war. I have only referred to its mistakes as a servant of the truth, and in the name of the great cause which has been made to suffer. I believe, religiously, in the freedom of speech. From the beginning of the war I have exercised the right of frank, friendly, and fearless criticism of the conduct of our rulers, wherever I believed them to have been in the wrong. I shall continue to exercise it to the end; and if I should not, through any personal or prudential considerations, I would be unworthy of the seat I have occupied on this floor. Criticism has dictated the present policy of the government, and is still a duty. This great battle for the rights of man, and the actors in it, must be judged. None of them



can "escape history." The fame of none of them is so precious as the truth, and as public justice, which cares for the dead as well as the living, for the common soldiers slain by thousands as well as for the general and the statesman. The President, his advisers, his commanding generals, and the civilians whose shaping hands have had so much to do with the conduct of the war, must all of them be weighed in the balance by the people and the generations to come. "The great soul of the world is just," and sooner or later all disguises will be thrown off, and every historical character will stand forth as he is, in the light of his deeds and deserts. The men who have been intrusted with the concerns of the nation in this momentous crisis will not be judged harshly. Much will be forgiven or excused on the score of the surpassing magnitude and difficulty of their work. Justice will be done; but that justice may brand as a crime the blunders proceeding from a feeble, timid, ambidextrous policy, resulting in great sacrifices of life and treasure, and periling the priceless interests at stake. I would award all due honor to this administration, and to the statesmen and generals who have been faithful to their high trusts; but I would award an equal honor to the rank and file of the people, who have inspired its present policy, and to the rank and file of our soldiers, who have saved the country in spite of the mistakes of the government, the strifes of our politicians, and the rivalries of our generals. These are the real heroes of the war. Untitled, practically unrewarded, facing every form of privation and danger, and animated by the purest patriotism, the common soldier is not only the true hero of the war, but the real savior of his country.

But a higher honor, if not a more enduring fame, will be the heritage of the anti-slavery pioneers and prophets of our land: for

"Peace hath higher tests of manhood  
Than battle ever knew."

Without their heroic labors and sacrifices the Republic, "heir of all the ages," would have been the mightiest slave empire of the world. In an age of practical atheism and mammon-worship, when the Church and the State joined hands with Slavery as the new trinity of the nation's faith, they really believed in God, in justice, in the resistless might of the truth. They believed that liberty is the birthright of all men, and their grand mission was the practical vindication of this truth. They believed, with their whole hearts, in the Declaration of Independence. They accepted its teachings as coincident with the Gospel

of Christ, and supported by reason and justice. It was their ceaseless "battle-cry of freedom," and they chanted it as "the fresh, the matin song of the universe," to the enslaved of all races and lands. They were branded as fanatics and infidels, and encountered everywhere the hootings of the multitude and the scorn of politicians and priests; but I know of no class of men who were ever more far-sighted, whose convictions rested on so broad a basis of Christian morals and logic, and whose religious trust was so strong and so steadfast. For them there was no "eclipse of faith." Just as the nation began to lapse from the grand ideas of our revolutionary era, they began to "cry aloud and spare not," and they never ceased or slackened their labors. Placing their ears to the ground in the infancy and weakness of their movement, they caught the rumbling thunders of civil war in the distance, warned the country of its danger, and preached repentance as the chosen and only means of escape. They were compelled to face mobs, violence, persecution, and death, and were always misunderstood or misrepresented; but they never faltered. Reputation, honors, property, worldly ease, were all freely laid upon the altar of duty, in their resolve to vindicate the rights of man and the freedom of speech. To follow these apostles and martyrs was to forsake all the prizes of life which worldly prudence or ambition could value or covet. It was to take up the heaviest cross yet fashioned by this century as the test of Christian character and heroism; and those who bore it were far braver spirits than the men who fight our battles on land and sea.

Mr. Chairman, the failure of men thus devoted to a great and holy cause was morally impossible. They could not fail. Through their courage, constancy, and faith, they gradually secured the co-operation or sympathy of the better type of men of all parties and creeds. They seriously disturbed, or broke in pieces, the great political and ecclesiastical organizations of the land; and even before this war their ideas were rapidly taking captive the popular heart. When it came, they saw, as by intuition, the character of the struggle, as the final phase of slaveholding madness and crime, and insisted upon the early adoption of that radical policy which the government at last was compelled to accept. I believe it safe to say that the moral appeals and persistent criticism of these men, and of the far greater numbers who borrowed or sympathized with their views, saved our cause from the complete control of Conservatism, and thus saved the country itself from destruction. Going at once to the heart of our great

conflict, they pointed out the only remedy, and felt compelled to reprobate the failure of the government to adopt it. They judged its policy in war, as they had done in peace, in the light of its fidelity or infidelity to Human Rights. By this

test they tried every man and party, and they need ask for no other rule of judgment for themselves. The administration, and the chief actors in this drama of war, of whatever political school, must be weighed in the same great balance. . . .

# RECONSTRUCTION

## THE SOUTH CAROLINA FREEDMEN'S CODE

THE ACTIVITIES of the states that had been restored to self-government under the Lincoln program were scarcely calculated to win Northern public opinion to support either Lincoln's policy or President Johnson's effort to maintain it against the ruling faction in Congress. Johnson's amnesty grants had made it possible for many former Confederate leaders to hold office, and these men were naturally returned to positions of power in the state governments. Communities that had accepted the abolition of slavery then proceeded to cope with their labor problem. Freedmen were inclined to enjoy their new mobility; they had no more notion of the obligation of contracts than their masters had cash with which to pay for their services. Yet, crops must be planted and harvested, order preserved, and effort made to restore the capital dissipated by war.

Typical of the legal devices invented to meet these problems was the South Carolina Freedmen's code. The preface to the contemporary edition of this law gives an interesting view of the Southerner's opinion concerning the conflict at Washington and the practical

solution of the questions growing out of emancipation. The code is concerned with keeping the freedman in his place by forbidding him to engage in any occupation other than farming, except on payment of a large license fee. A special penal code, reminiscent of the unreformed British criminal law of the eighteenth century, attempted to secure property against arson and theft. Vagrancy and apprenticeship laws assured the planter of a supply of labor, while a special system of courts for the trial of cases in which colored persons were parties gave the freedmen the protection of law. "The high-minded, virtuous, intelligent, patriotic Southerner" had made certain that a lost war would not subvert his society. The South Carolina code was duplicated in the other Southern states. Johnson's program of conciliation and the violation of the civil rights of Negroes unleashed the bitter attack of the Radicals on the defeated South. Congressional Reconstruction now followed.

The selection reprinted here is from H. Melville Myers, comp., *Stay Law and . . . Freedmen's Code* (Charleston, 1866).

### *The South Carolina Freedmen's Code*

#### EDITOR'S PREFACE

. . . SCARCELY had the proclamation announced that hostilities were over, while the spirit of peace seemed still sorrowfully brooding over a war-stricken land, when South Carolina, amid the desolation and the ruins of her Capitol, assembled in Convention, which was composed of the statesmen, and eminent civilians the wisdom of the State. The members of this venerable assembly, with that degree of facility for accommodating themselves to circumstances, so peculiar to the

American mind, faithfully yielding to the impress of so sudden emancipation, after calm and mature deliberation, amended the State Constitution, in reference to slavery, thereby abolishing the institution, and *in solemn council resolved* upon the appointment of a commission, to prepare and submit a Code of Laws, which would be applicable to all classes of freedmen, in consequence of this material alteration and change in the organic and fundamental laws of the State. The code thus submitted to the General Assembly embraced 1st: A Bill preliminary to the legislation induced by the

emancipation of slaves. 2d. A Bill to establish and regulate the domestic relations of persons of color, and to amend the law in relation to paupers, vagrancy and bastardy. 3d. A Bill to establish District Courts, and 4th, A Bill to amend the Criminal Law. This Code was approved, adopted and ratified by the General Assembly, with immaterial alterations and amendments, on the 20th day of December, 1865, which rendered inapplicable to persons of color, all statutes and regulations concerning slaves, and it was declared by special enactment, (Prelim. Act, Sec iv), that "although such persons are not entitled to social or political equality with white persons, they shall have the right to acquire, own and dispose of property: to make contracts: to enjoy the fruits of their labor: to sue and be sued: and to receive protection under the laws in their persons and property."

To the political philosopher, the practical statesman, even to the candid and reflecting mind, in the light of truth, reason and nature, with a proper conception of the principles of Government, human or divine, in view of all the civil jurisprudence and sound legislation of the past, these enactments embodying, the *positive law*, which thus establishes the political and civil status of the freedmen within this legislative jurisdiction, are surely based upon deep principles of wisdom, justice and sound policy. Guided by the principles which flow through the political history of all governments, and properly influenced by the ever recurring experience of all ages—the irresistible conviction appears: that of all people the most incapable and unworthy of self-government, the most dependent and helpless that could be selected to perform any of the duties, or fulfil any of the essential qualifications pertaining to electors, must be the suddenly enfranchised freedmen of the South. No people are more ignorant of the necessary functions of a representative form of government, none morally or intellectually more incapable of appreciating or realizing the grand fulfillments of so high a mission. Never, as a race, were they recognized as citizens, or as the *liberi homines* of the English *Magna Charta*. Never were they recognized as the *liberi homines pares curiæ legales homines* in the documents of the middle ages, nor were they ever recognized as the *liberi et equi cives* in the Declaration of American Independence, which resulted in the formation of a Federal Constitution and a General Government, solely and exclusively organized to rule over, protest and regulate the venerable organizers of this system of constitutional government, and all citizens comprehended within its jurisdic-

tion, who, as free born white American citizens, ever enjoyed the right of elective franchise before this government had been derived from them as part and parcel of its political machinery. While the negro race, by common and universal consent was then and has ever been excluded, as a separate class, from all civilized governments and the family of nations, and was then only recognized as a distinct race, doomed by a mysterious and Divine ordination to perpetual bondage, possessing no civil or political rights whatever. The *status civitatis*, therefore, of all freedmen in this State can only be properly and constitutionally recognized as the condition of free negroes or colored persons manumitted, and they can only naturally and properly assume that social and political status in civil society in South Carolina which the Legislature has hitherto recognized, when the government extends its regulating and controlling protection over all other free negroes and persons of color within the legislative jurisdiction of the State: consequently they have ample and full protection secured to them. They are placed equal before the law in the possession and enjoyment of all their rights of person—of liberty and of property. To institute, therefore, between the Anglo Saxon, the high-minded, virtuous, intelligent, patriotic Southerner and the freedman, a social or political approximation more intimate—to mingle the social or political existence of the two classes more closely, would surely be one of the highest exhibitions of treason to the race. These two great classes, then, are distinctly marked by the impress of nature. They are races separate and distinct: the one the highest and noblest type of humanity, the other the lowest and most degraded. Fully recognizing these deeply marked distinctions of nature, ever mindful of the former relations and the fearful antagonism which might be eventually exhibited between these two races, the General Assembly, in instituting the Freedmen's Code, have governed their counsels by wisdom, their measures by moderation, and their principles by justice. "*In sociate civili, aut lex aut vis valet.*" And as the just conceptions of this Code, which has been so recently induced by the change in some of the fundamental principles in the State Constitution in reference to the freedmen, that the State may again be restored to her constitutional relations to the Federal Government, are so highly essential to the proper appreciation of their civil rights and correlative duties involved, with equal correctness may it be assumed that, in view of the speedy promulgation of this Code, its wise, humane and just administration, there will be il-

lustrated most conspicuously the wisdom, harmony and justness of this law.

But there is a class of Republicans, who, in their willful career of extreme hostility, are contemplating the complete reversion and change of all the actions of both State and Federal Governments, at least so far as they do not conform to *their principles of natural right*, as deduced from natural reason, who distinctly and boldly affirm that *all men*, irrespective of color, creed or caste, are created with *equal, inherent natural and inalienable rights*, and thus only recognizing these State governments and laws, institutions and constitutions, simply as *mere external structures*, with no time-honored principles and long recognized and well established precedents, around which cluster so many grand, imposing and sacred maxims of the Common Law, which have hitherto rendered them the durable basis of all our social and political existence. This ultra element of Republicanism has long since vitiated and corroded their Northern Literature; pervaded their civil jurisprudence, rendered impure their grand system of Theology; shed its Utopian influence through all their local legislations; and now has become so augmented that it has most effectually established the creed of a political party which commands so overwhelming a majority in both branches of the Federal Congress. This majority do contend that all men embraced within the States which constitute the Federal Union, regardless of class or color, should be governed by certain fixed, inflexible, invariable rules deduced from natural reason; that this Government which is adapted and applicable only to a race of *virtuous, intelligent and patriotic white citizens*, should be indiscriminately administered in States consisting of two distinct races, opposite in color, differing as widely in character, moral and mental habits, as are the opposing "characteristics of barbarism and civilization." Animated by this great controlling law of *their nature*, by the superior *instinct of natural freedom*, and by looking within they have there revealed to them the eternal right of their instinctive consciousness, and the higher law of *universal liberty and negro equality*. And therefore it is that they demand as a necessary and indispensable prerequisite to the restoration of the Union of the Southern States to their civil and political power, that the civil and political status of the freedmen shall, so far as legislation can accomplish it be perfect equality, culminating with the right of elective franchise, and as a further punishment, the humiliation and utter degradation of the South, they would accordingly seek to in-

troduce the freemen with all their foulness, with all their prosaic and characteristic vulgarities, domesticated and disciplined with all their evil associations, into our charmed domestic circles of genuine refinement and social equality.<sup>1</sup> To the former master, to all conservative men and patriots North and South, they virtually say, "Why is it you take so much upon yourselves, seeing that these freedmen, formerly slaves, are now by the law of Nature created your equal? By their natural and inalienable rights, and by the unalterable act of emancipation, they are now as free as yourselves, and must be thereby entitled to all your social and political life; they are therefore not to be thus excluded, by your State legislations and conventions from the high positions of wealth and honor, they are not thus to be excluded from the halls of Legislation, and the stately palaces of the Nation. Why is it, then, you continue to lift yourselves so high above the negro? Verily, we will not, by our recent Constitutional amendments, our continued and further Congressional Legislation, submit to this superior white elevation above the freedmen."

Such are some of the leading characteristics of this Republican party, now in the Federal Congress, as derived from the legitimate exponents of their political faith extreme and sectional policy, and these are some of the natural sequences, when they announce that there exists, in view of our legislative enactments, an *Impending Crisis—the Irrepressible Conflict within the Social Systems of the South*, which shall continually and steadily progress and be developed until there is perfect equality among all classes, or the one or the other race must be exterminated. For under the Federal Constitution, which was formed "to establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare of all the States, and secure the blessings of liberty to ourselves and posterity," we now behold, in the National Councils, this Sectional and Radical Majority, though sworn to support that Constitution, gradually assuming possession of the General Government, seeking to entrench itself in all of the departments, exerting all its official and personal influence to defeat the grand objects for which it was established, clothing itself with all the political power, disregarding all the imposing barriers of the Constitution, the solemn forms of Law, the high and sacred obligations of humanity, the acknowledged co-equal sovereignty of all

<sup>1</sup> The Hon. J. R. Giddings, with some degree of pride, boasted in Congress that on one occasion he had the pleasure of dining with nine negro gentlemen at his own table.

States embraced within the Federal Compact, most effectually arraying section against section and class against class, and seeking to fill the land again with all the horrors of a second internecine conflict, and endless civil contest. In a word, the party having now constituted itself the Federal Government, the present political issues, the necessary consequence of this fearful antagonism, appear to be a conflict between the Radical Majority in Congress and the Executive power as to whether there shall be established between the two sections of the country, perpetual peace and concord, or endless agitation and sectional discord. Whether there shall continue to be an Union of perfect equality of all the States, or a disunion of the Southern States. Whether all the States shall continue to exist in all their original and constitutional sovereignty, or a portion of them utterly subjugated and destroyed. Whether there shall continue a constitution in all its supreme and native integrity, or an absolute and endless anarchism. Whether there shall exist civil liberty as ordered by Constitutional laws, or liberty as disordered by a numerical and sectional radicalism. Whether this Government shall continue a Democratic Republic, or a purely Radical and Sectional Stratocracy!!

And the virtuous, intelligent and patriotic American people, are now beginning more fully to realize in ANDREW JOHNSON, by his bold, manly and heroic defence of the Constitution, and of the right of each State guaranteed under the Union, as a Federal Executive, whose stern self-bnegation, lofty patriotism, and the wise policy which he has maturely organized for the complete restoration of all the States, elevated above mere party feelings and sectional strife, he exhibits a moral spectacle as sublime and magnanimous as the world has ever before witnessed.<sup>2</sup> Thus far there have been revealed a reach of thought, maturity of judgment, in the eventful and mag-

nanimous administration of this wise and patriotic statesman, encircling in his range "the whole Government, a restored Union, a thoroughly reconstructed and united Country," which, if effectually consummated, will be fully able to evolve and most speedily accomplish results the grandest and most sublime. The Radicals in Congress having indignantly passed over the sanctity of the Constitution, when the brave and generous South, ever chivalrous and great, had finally terminated her terrible and deadly conflicts on the field, and had faithfully acceded to all the requirements stipulated by the General Government, they still seek the further humiliation and utter degradation of the South, by the enforcement of—without discrimination, what is designated as the civil rights of the negro, which being amplified and expanded, is the right to vote in all elections,—the right to testify in all courts of justice,—the right to set upon all juries,—the right to intermarry with all white persons. It is the natural right extended to the negro to exercise all those functions which would inevitably lead to the complete subversion of the laws of the States, and the continued foisting of the military law upon the people of the South to an indefinite and unlimited period. But the Federal Executive amid this rage of faction, this storm of passion for the natural, equal rights of all men, like Neptune of old rising above the billows and clouds of this *dangerous sea of political metaphysics*, embraces within his mental vision the true policy, the wise administration, the ever increasing grandeur and ultimate destiny of the Republic; recognizes only that Union which he has been taught to revere,—“that Union contemplated by the Constitution—an ungrey eyes I ever saw in a human head; these are the outlines of Andrew Johnson.

For the first time I stood near and looked closely on the man. In the course of an eventful life, I have seen many men of wilful power and force, but never before have I looked on one so thoroughly embodying the evil spirit of revolution. It will not do to underestimate Mr. Johnson. He is terribly in earnest, and, withal, most vindictively cool. A thoroughly-paced demagogue, his inconsequential logic, his egotism, his repetitions, his thorough belief in himself, and his popularity, are all elements of strength, when he faces such assemblages as were arrayed about him on the 22d February last. Andrew Johnson is an able man—how able I never realized till yesterday. All results are involved in his policy. Had he a Cabinet as able and as desperate, the dire results which the near future would bring, could hardly be named now. We stand on the verge of a fierce strife, to meet which the country should gather its strength and gird up its loins. This man is no weak Buchanan, and he means to crush Congress or be crushed.”

The Hon. J. D. Baldwin, Congressman from Massachusetts, of the Sumner-Stevens politics, in giving a description of the President, thus concedes his power and ability:

“Mr. Johnson is a man of stalwart mould. Just above middle stature, he is so broad-shouldered, firm-set and deep-chested, as almost to seem below it. He has a large head. It is a compact home for his fiery will and brain. His face is marked, strong oval outline, powerful under-jaw; well-defined but rather sharp chin; a wide, straight mouth; full, flexible lips; skin, coarse in texture, of a firm; complexion, swarthy; hair, coarse, black, streaked with grey; a nose small at the root, but full and large at the nostrils, which expand and lift as he speaks; broad, roomy forehead; beetling, bushy eyebrows, beneath which are a pair of the coldest hazel-

ion of communities having equal rights—an union regulated and governed by the principles of the Constitution—an union of sovereign and co-ordinate States, entitled to regulate their *domestic affairs in their own way*, which States, under the Federal compact, are inexorably bound to fulfill all their obligations to each other with scrupulous fidelity," dignity and honor.

AN ACT TO ESTABLISH AND REGULATE THE DOMESTIC RELATIONS OF PERSONS OF COLOR, AND TO AMEND THE LAW IN RELATION TO PAUPERS AND VAGRANCY

BE IT ENACTED by the Senate and House of Representatives, now met and sitting in General Assembly, and by the authority of the same, as follows:

HUSBAND AND WIFE

I. The relation of husband and wife amongst persons of color is established.

II. Those who now live as such, are declared to be husband and wife.

III. In case of one man having two or more reputed wives, or one woman two or more reputed husbands, the man shall, by the first of April next, select one of his reputed wives, or the woman one of her reputed husbands, and the ceremony of marriage, between this man or woman, and the person so selected, shall be performed.

IV. Every colored child, heretofore born, is declared to be the legitimate child of his mother, and also of his colored father, if he is acknowledged by such a father. . . .

VIII. One who is a pauper, or a charge to the public, shall not be competent to contract marriage. Marriage between a white person and a person of color, shall be illegal and void.

IX. The marriage of an apprentice shall not, without the consent of the master, be lawful.

X. A husband shall not, for any cause, abandon or turn away his wife, nor a wife her husband. Either of them that abandons or turns away the other, may be prosecuted for a misdemeanor; and upon conviction thereof, before a District Judge, may be punished by fine and corporal punishment, duly apportioned to the circumstances of aggravation or mitigation. A husband not disabled, who has been thus convicted of having abandoned or turned away his wife, or who has been shown to fail in maintaining his wife and children, may be bound to service by the District Judge from year to year, and so much of the profits of his labor, as may be requisite, be applied to the maintenance of his wife and children; the distribution between them being made according to their respective merits

and necessities. In like manner, a wife not disabled, who has been thus convicted, may be bound, and the proceeds of her labor applied to the maintenance of her children. In either case, any surplus profit shall go to the person bound. At the end of any year for which he was bound, the husband shall have the right to return to, or receive back, his wife, and thereupon shall be discharged upon condition of his afterwards maintaining his wife and children. A like right a wife shall have, at the end of a year for which she was bound, on condition of her making future exertions to maintain her family. . . .

MASTER AND APPRENTICE

XV. A child over the age of two years, born of a colored parent, may be bound by the father, if he be living in the District, or in case of his death or absence from the District, by the mother, as an apprentice, to any respectable white or colored person, who is competent to make a contract—a male until he shall attain the age of twenty-one years and a female until she shall attain the age of eighteen years.

XVI. Illegitimate children, within the ages above specified, may be bound by the mother.

XVII. Colored children, between the ages mentioned, who have neither father nor mother living in the District in which they are found, or whose parents are paupers, or unable to afford to them maintenance, or whose parents are not teaching them habits of industry and honesty, or are persons of notoriously bad character, or are vagrants, or have been, either of them convicted of an infamous offense, may be bound as apprentices by the District Judge, or one of the Magistrates for the aforesaid term.

XVIII. Males of the age of twelve years, and females, of the age of ten years, shall sign the indenture of apprenticeship and be bound thereby.

XIX. When the apprentice is under these ages, and in all cases of compulsory apprenticeship, where the infant refuses assent, his signature shall not be necessary to the validity of the apprenticeship. The master's obligation of apprenticeship in all cases of compulsory apprenticeship, and cases where the father or mother does not bind a child, shall be executed in the presence of the District Judge, or one of the Magistrates, certified by him, and filed in the office of the Clerk of the District Court. . . .

XXII. The master or mistress shall teach the apprentice the business of husbandry, or some other useful trade or business, which shall be specified in the instrument of apprenticeship; shall furnish him wholesome food and suitable clothing; teach

him habits of industry, honesty and morality; govern and treat him with humanity; and if there be a school within a convenient distance, in which colored children are taught, shall send him to school at least six weeks in every year of his apprenticeship, after he shall be of the age of ten years: *Provided*, That the teacher of such school shall have the license of the District Judge to establish the same.

XXIII. The master shall have authority to inflict moderate chastisement and impose reasonable restraint upon his apprentice, and to recapture him if he depart from his service.

XXIV. The master shall receive to his own use the profits of the labor of his apprentice. The relation of master and apprentice shall be dissolved by the death of the master, except where the apprentice is engaged in husbandry, and may be dissolved by the District Judge, when both parties consent, or it shall appear to be seriously detrimental to either party. In the excepted case it shall terminate at the end of the year in which the master died. . . .

XXX. At the expiration of his term of service, the apprentice shall have the right to recover from his master a sum not exceeding sixty dollars. . . .

#### CONTRACTS FOR SERVICE

XXXV. All persons of color who make contracts for service or labor, shall be known as servants, and those with whom they contract shall be known as masters.

XXXVI. Contracts between masters and servants, for one month or more, shall be in writing, be attested by one white witness, and be approved by the Judge of the District Court, or by a Magistrate.

XXXVII. The period of service shall be expressed in the contract; but if it be not expressed, it shall be until the twenty-fifth day of December, next after the commencement of the service.

XXXVIII. If the rate of wages be not stipulated by the parties to the contract, it shall be fixed by the District Judge or a Magistrate, on application by one of the parties, and notice to the other.

XXXIX. A person of color, who has no parent living in the district, and is ten years of age, and is not an apprentice, may make a valid contract for labor or service for one year or less.

XL. Contracts between masters and servants may be set aside for fraud or unfairness, notwithstanding they have been approved.

XLI. Written contracts between masters and servants, shall be presented for approval within twenty days after their execution.

XLII. Contracts for one month or more shall not be binding on the servant, unless they are in writing and have been presented for approval within the time aforesaid.

XLIII. For any neglect of the duty to make a contract as herein directed, or the evasion of that duty by the repeated employment of the same persons for periods less than one month, the party offending shall be guilty of a misdemeanor, and be liable on conviction to pay a sum not exceeding fifty dollars, and not less than five dollars, for each person so employed. No written contract shall be required, when the servant voluntarily receives no remuneration, except food and clothing.

XLIV. For the approval of contracts, the following sums, to be called aids, shall be paid to the District Judge, or the Magistrate, as the case may be, in cash, when the contract is approved, provided no aid shall be paid for any servant under twelve years of age:

For a contract for one month or less, for each servant, .....	\$ 25
For a contract not exceeding three months and more than one month, for each servant, .....	0 50
For a contract not exceeding six months and more than three months, for each servant, .....	0 75
For a contract for one year, or any time more than six months, for each servant, .....	1 00
For a contract for more than one year, for each year or part of a year, over one year, for each servant, .....	1 00
One-half of which aids shall be paid by the master, and one-half by the servant.	

#### REGULATIONS OF LABOR ON FARMS

XLV. On farms or in out-door service, the hours of labor, except on Sunday, shall be from sun-rise to sun-set, with a reasonable interval for breakfast and dinner. Servants shall rise at the dawn in the morning, feed, water and care for the animals on the farm, do the usual and needful work about the premises, prepare their meals for the day, if required by the master, and begin the farm work or other work by sun-rise. The servant shall be careful of all the animals and property of his master, and especially of the animals and instruments used by him, shall protect the same from injury by other persons, and shall be answerable for all property lost, destroyed or injured by his negligence, dishonesty or bad faith.

XLVI. All lost time, not caused by the act of the master, and all losses occasioned by neglect of



the duties hereinbefore prescribed, may be deducted from the wages of the servant; and food, nursing and other necessities for the servant, while he is absent from work on account of sickness or other cause, may also be deducted from his wages. Servants shall be quiet and orderly in their quarters, at their work and on the premises; shall extinguish their lights and fires, and retire to rest at seasonable hours. Work at night, and out-door work in inclement weather, shall not be exacted unless in case of necessity. Servants shall not be kept at home on Sunday, unless to take care of the premises, or animals thereupon, or for work of daily necessity, or on unusual occasions; and in such cases only so many shall be kept at home as are necessary for these purposes. Sunday work shall be done by the servants in turn, except in cases of sickness or other disability, when it may be assigned to them out of their regular term. Absentees on Sunday shall return to their homes by sun-set.

XLVII. The master may give to a servant a task at work about the business of the farm which shall be reasonable. If the servant complain of the task, the District Judge, or a Magistrate, shall have power to reduce or increase it. Failure to do a task shall be deemed evidence of indolence, but a single failure shall not be conclusive. When a servant is entering into a contract, he may be required to rate himself as a full hand, three-fourths, half, or one-fourth hand, and according to this rate inserted in the contract, shall be the task, and of course the wages.

XLVIII. Visitors or other persons shall not be invited, or allowed by the servant, to come or remain upon the premises of the master, without his express permission.

XLIX. Servants shall not be absent from the premises without the permission of the master.

#### RIGHTS OF MASTER AS BETWEEN HIMSELF AND HIS SERVANT

L. When the servant shall depart from the service of the master without good cause, he shall forfeit the wages due to him. The servant shall obey all lawful orders of the master or his agent, and shall be honest, truthful, sober, civil, and diligent in his business. The master may moderately correct servants who have made contracts, and are under eighteen years of age. He shall not be liable to pay for any additional or extraordinary services or labor of his servant, the same being necessary, unless by his express agreement.

#### CAUSES OF DISCHARGE OF A SERVANT

LI. The master may discharge his servant for

wilful disobedience of the lawful order of himself or his agent; habitual negligence or indolence in business; drunkenness, moral or legal misconduct; want of respect and civility to himself, his family, guests or agents; or for prolonged absence from the premises, or absence on two or more occasions without permission.

LII. For any acts or things herein declared to be causes for the discharge of a servant, or for any breach of contract or duty by him, instead of discharging the servant, the master may complain to the District Judge, or one of the Magistrates, who shall have power, on being satisfied of the misconduct complained of, to inflict, or cause to be inflicted, on the servant suitable corporal punishment, or impose upon him such pecuniary fine as may be thought fit, and immediately to remand him to his work; which fine shall be deducted from his wages, if not otherwise paid.

LIII. If a master has made a valid contract with a servant, the District Judge or a Magistrate, may compel such servant to observe his contract, by ordering infliction of the punishment, or imposition of the fine herein before authorized. . . .

#### RIGHTS OF SERVANT AS BETWEEN HIMSELF AND MASTER

LXI. The servant may depart from the master's service for an insufficient supply of wholesome food; for an unauthorized battery upon his own person, or one of his family, not committed in defence of the person, family, guests or agents of the master, nor to prevent a crime or aggravated misdemeanor; invasion by the master of the conjugal rights of the servant; or his failure to pay wages when due; and may recover wages due for services rendered to the time of his departure.

LXII. The contract for service shall not be terminated by the death of the master, without the assent of the servant. Wages due to white laborers and to white and colored servants, shall rank as rent does in case of the insufficiency of the master's property, to pay all debts and demands against him, but not more than one year's wages shall be so preferred. When wrongfully discharged from service, the servant may recover wages for the whole period of service according to the contract. If his wages have not been paid to the day of his discharge, he may regard his contract rescinded by the discharge, and recover wages up to that time.

LXIII. The master shall receive into his employment the servant with whom he has made a contract, but any of the causes which may justify him in discharging a servant, shall justify him in refusing to receive him.

LXIV. The master shall, upon the discharge, or at the expiration of his term of service, furnish the servant with a certificate of discharge, and at the request of the servant, give him a certificate of character.

#### MUTUAL RIGHTS OF MASTER AND SERVANT

LXV. Whenever a master discharges a servant, the servant may make immediate complaint to a District Judge, or Magistrate, and whenever a servant departs from his master's service, the master may make like complaint. In either case, the District Judge or Magistrate, shall, by summons or warrant, have the parties brought before him, hear them and their witnesses, and decide as to the sufficiency of the cause of his discharge or departure. This decision shall not affect or prejudice any further action on either side, but it may avail to restore the relation of master and servant between the parties, if that be ordered. If the servant be decided to have been unlawfully discharged, and should desire to return to service under his contract, the master shall be compelled to receive him, under the penalty of twenty dollars, in case of his refusal. If the master desire the return of a servant, who has been decided to have departed without sufficient cause, the servant may be compelled, by fine and corporal punishment, to return to the service of the master, and perform his duties under the contract. . . .

#### MECHANICS, ARTISANS AND SHOP-KEEPERS

LXXII. No person of color shall pursue or practice the art, trade or business of an artisan, mechanic or shop-keeper, or any other trade, employment or business (besides that of husbandry, or that of a servant under a contract for services or labor) on his own account and for his own benefit, or in partnership with a white person, or as agent or servant of any person, until he shall have obtained a license therefor from the Judge of the District Court, which license shall be good for one year only. This license the Judge may grant upon petition of the applicant, and upon being satisfied of his skill and fitness, and of his good moral character, and upon payment, by the applicant, to the Clerk of the District Court of one hundred dollars, if a shop-keeper or pedlar, to be paid annually, and ten dollars if a mechanic artisan, or to engage in any other trade, also to be paid annually: *Provided, however,* That upon complaint being made and proved to the District Judge of an abuse of such license, he shall revoke the same, and: *Provided, also,* That no person of color shall practice any mechanical art or trade, unless he shows that he has served an apprentice-

ship in such trade or art, or is now practicing such trade or art.

LXXIII. For violation of the prohibition contained in the section next preceding the offender, upon conviction thereof before the Judge of the District Court, shall pay, for each offence, a fine of double the amount of such license, one-half whereof shall go to the informer, who shall be a competent witness.

LXXIV. The sums paid to the Clerk for these licenses shall be aids, and go into the District Court Fund; and the Clerk shall keep a record of all licenses issued under the order of the Judge of the District Court.

#### EVICION OF PERSONS OF COLOR

LXXV. Where, upon any farm or lands there are now persons of color who were formerly the slaves of the owner, lessee or occupant of the said farm or lands, who may have been there on the tenth day of November, eighteen hundred and sixty-five, and have been on said lands for six months previous, and who are helpless, either from old age, infancy, disease or other cause; and who are unable of themselves, and have no parent or other relation able to maintain them, and to provide other homes or quarters, it shall not be lawful for the present, or any subsequent, owner, lessee or occupant, before the first day of January, in the year eighteen hundred and sixty-seven, to evict or drive from the houses which now are, or hereafter shall be lawfully occupied by such helpless persons of color, such helpless persons, or any of them, by rendering such houses uninhabitable, or by any other means; and upon conviction of having done so, every such owner, lessee, occupant, agent or other person shall be fined not exceeding fifty dollars, or less than five dollars, for each such person of color so evicted, and may be imprisoned, at the discretion of the Judge of the District Court, not exceeding one month.

LXXVI. But the owner, lessee, or occupant of such farm or lands shall, nevertheless, have authority to preserve order and good conduct in the houses so occupied as aforesaid, and to prevent visitors and other persons from sojourning therein; and for insolence to himself or his family, for theft or trespass committed by such persons of color, or any one of them, upon the premises, or for violations by them of his regulations for the preservation of order and good conduct, the prevention of visitors and sojourners therein, the owner, lessee or occupant, may complain to the Judge of the District Court, or a Magistrate, who, upon finding the complaint well founded, may, according to the case, cause the immediate eviction of some

or all of such persons of color, and their removal from the premises. After the period aforesaid, they may be ejected, as is hereinafter provided in case of intruders.

LXXVII. It shall be the duty of the Judge of the District Court, or any Magistrate, on complaint made to him that persons of color have intruded into any house or upon any premises, as trespassers or otherwise, or that they unlawfully remain therein without permission of the owner, on ascertaining the complaint to be well founded, to cause such persons to be immediately removed therefrom, and in the case of the return of any such person without lawful permission, the party so offending may be subjected to such fine and corporal punishment as the Magistrate or District Judge may see proper to impose.

LXXVIII. During the term of service, the house occupied by any servant is the master's; and, on the expiration of the term of service, or the discharge of a servant, he shall no longer remain on the premises of the master; and it shall be the duty of the Judge of the District Court, or a Magistrate, on complaint of any person interested and due proof made, to cause such servant to be immediately removed from such premises.

LXXIX. Leases of a house or land to a person of color shall be in writing. If there be no written lease, or the term of lease shall have expired, a person of color in possession shall be a tenant at will, and shall not be entitled to notice; and on complaint by any person interested to the Judge of the District Court, or a Magistrate, such persons of color shall be instantly ejected by order or warrant, unless he produce a written lease authorizing its possession, or prove that such writing existed and was lost.

LXXX. In every case the costs of eviction may be exacted, by order or process, from the person evicted.

#### PAUPERS

LXXXI. When a person of color shall be unable to earn his support, and is likely to become a charge to the public, the fathers and grand-fathers, mother and grand-mothers, child and grand-child, brother and sister of such person, shall, each according to his ability, contribute monthly, for the support of such poor relation, such sum as the District Judge, or one of the Magistrates, upon complaint to him, shall deem necessary and proper, and on failure to pay such sum, the same shall be collected by summary order or process.

LXXXII. In each Judicial District, except the Judicial District of Charleston, in which there shall be one Board for the Election District of

Charleston, and one for the Election District of Berkley, there shall be established a Board, to be known as the "Board of Relief of Indigent Persons of Color," which shall consist of a Chairman and not less than three, nor more than seven other members, all of whom shall be Magistrates of the District, and be selected by the District Judge.

LXXXIII. This Board shall meet at the Court House on the Tuesday next after the first Monday in February and August in every year, and at other times and places, fixed by its own appointment or the summons of its Chairman, and it may, at its pleasure, appoint sub-Boards, to be composed of such of its own members and other Magistrates of the District as it may select. . . .

XCIII. The balance of the District Court fund which, as provided by the "Act to establish District Courts," shall, under the order of the District Judge, be paid to the chairman aforesaid, shall, under the order of the Board aforesaid, be distributed to the Magistrates of precincts, and be by them disbursed for the relief of indigent persons of color, and other uses of the Board, as may be directed. The minutes of the Board shall show the sum assigned to each Magistrate, and the receipt of the Magistrate for every sum paid to him shall be taken by the chairman of the Board, and shall accompany the next report of the chairman to the Board, as well as be exhibited in support of the chairman's quarterly report to the District Court in which such payment is set down.

XCIV. On satisfactory information to the District Judge, or a Magistrate, that a person of color has removed from another District, and is likely to become a charge to the District into which he has removed, the District Judge, or the Magistrate shall proceed against such a person as a vagrant, and, on conviction, he shall be punished as such: *Provided, however,* That persons of color who were removed by their former masters from other Districts, within the last five years, shall be allowed twelve months to return to the Districts from which they were removed; and those who have been separated from their families or relatives shall be allowed to return to them within twelve months.

#### VAGRANCY AND IDLENESS

XCV. These are public grievances, and must be punished as crimes.

XCVI. All persons who have not some fixed and known place of abode, and some lawful and reputable employment; those who have not some visible and known means of a fair, honest and reputable livelihood; all common prostitutes; those

who are found wandering from place to place, vending, bartering, or peddling any articles or commodities, without a license from the District Judge, or other proper authorities; all common gamblers; persons who lead idle or disorderly lives, or keep or frequent disorderly or disreputable houses or places; those who, not having sufficient means of support, are able to work and do not work; those who, (whether or not they own lands, or are lessees or mechanics,) do not provide a reasonable and proper maintenance for themselves and families; those who are engaged in representing publicly or privately, for fee or reward, without license, any tragedy, interlude, comedy, farce, play, or other similar entertainment, exhibition of the circus, sleight of hand, wax work or the like; those who for private gain, without license, give any concert or musical entertainment of any description; fortune tellers; sturdy beggars; common drunkards; those who hunt game of any description, or fish on the land of others, or frequent the premises, contrary to the will of the occupants; shall be deemed vagrants, and be liable to the punishment hereinafter provided.

XCVII. Upon information, or oath, of another,

or upon his own knowledge, the District Judge or a Magistrate shall issue a warrant for the arrest of any person of color known or believed to be a vagrant, within the meaning of this Act. The Magistrate may proceed to try, with the assistance of five freeholders, or call into his aid another Magistrate, and the two may proceed to try, with the assistance of three freeholders, as provided by the Act of 1787, concerning vagrants; or the Magistrate may commit the accused to be tried before the District Court. On conviction, the defendant shall be liable to imprisonment, and to hard labor, one or both, as shall be fixed by the verdict, not exceeding twelve months.

XCVIII. The defendant, if sentenced to hard labor after conviction, may, by order of the District Judge, or Magistrate, before whom he was convicted, be hired for such wages as can be obtained for his services, to any owner or lessee of a farm, for the term of labor to which he was sentenced, or be hired for the same labor on the streets, public roads, or public buildings. The person receiving such vagrant shall have all the rights and remedies for enforcing good conduct and diligence at labor that are herein provided in the case of master and servant.

## THE SOUTH CAROLINA CONSTITUTION OF 1868

AMONG THE STATES that drafted new fundamental laws under the proceedings outlined in the Reconstruction Acts, South Carolina is particularly interesting because of the difference between the document of 1868 and the brief revision of her old basic law which was the Constitution of 1865. The latter had recognized the fact of emancipation; but it retained a property basis for the apportionment of representation so as to give the low country continued control of the legislature.

The Constitution of 1868, which was in certain measure based on the liberal Ohio document, established universal suffrage, altered the geographic basis of representation in favor of the upper country and made numerous innovations in South Carolina institutions. Married women were granted control of their own property, for example; the judicial system was revised; and a system of free public schools was established. It will be observed that segre-

gation in public educational institutions was specifically outlawed.

The convention enacting this program not only excluded the state's former leaders, who suffered under the system of federal disability, but most of its propertied interests as well. Many of the property-owning eligible voters refused to participate in the election to ratify the constitution; and neither they nor the disfranchised Confederate partisans relished the idea of bearing the cost of an educational and eleemosynary program which would benefit their former slaves while it imposed new strains on an economy not yet recovered from a long war.

The progressive purposes of the new constitution were defeated by the political exploitation of the Negro and—more important—by the growing indifference of the Federal government to the processes of Reconstruction. The result was that in 1877 South Carolina

was "redeemed" and white supremacy under the Democratic party once more was reestablished. "Redemption" occurred in the other Southern states as follows: Virginia, 1870; North Carolina, 1870; Georgia, 1871; Florida, 1877; Alabama, 1874; Mississippi, 1876; Louisiana, 1877; Texas, 1874; Arkansas, 1874; Tennessee, 1869.

In the election of 1876, all the Border states and all the former Confederate states (except South Carolina, Florida, and Louisiana) voted for the Democratic candidate, Samuel J. Tilden.

The South Carolina Constitution is reprinted from a pamphlet of that name published in Charleston in 1868.

### *The South Carolina Constitution of 1868*

*We, the People of the State of South Carolina, in Convention assembled*, Grateful to Almighty God for this opportunity, deliberately and peaceably of entering into an explicit and solemn compact with each other, and forming a new Constitution of civil government for ourselves and posterity, recognizing the necessity of the protection of the people in all that pertains to their freedom, safety and tranquility, and imploring the direction of the Great Legislator of the Universe, do agree upon, ordain and establish the following

#### DECLARATION OF RIGHTS AND FORM OF GOVERNMENT AS THE CONSTITUTION OF THE COMMONWEALTH OF SOUTH CAROLINA

##### ARTICLE I: DECLARATION OF RIGHTS

SECTION 1. All men are born free and equal—endowed by their Creator with certain inalienable rights, among which are the rights of enjoying and defending their lives and liberties, of acquiring, possessing and protecting property, and of seeking and obtaining their safety and happiness.

SECTION 2. Slavery shall never exist in this State; neither shall involuntary servitude, except as a punishment for crime, whereof the party shall have been duly convicted.

SECTION 3. All political power is vested in and derived from the people only; therefore they have the right, at all times, to modify their form of government in such manner as they may deem expedient, when the public good demands.

SECTION 4. Every citizen of this State owes paramount allegiance to the Constitution and Government of the United States, and no law or ordinance of this State in contravention or subversion thereof can have any binding force.

SECTION 5. This State shall ever remain a member of the American Union, and all attempts, from whatever source, or upon whatever pretext, to dissolve the said Union, shall be resisted with the whole power of the State.

SECTION 6. The right of the people peaceably

to assemble to consult for the common good, and to petition the Government, or any department thereof, shall never be abridged.

SECTION 7. All persons may freely speak, write and publish their sentiments on any subject, being responsible for the abuse of that right; and no laws shall be enacted to restrain or abridge the liberty of speech or of the press.

SECTION 8. In prosecutions for the publication of papers investigating the official conduct of officers or men in public capacity, or when the matter published is proper for public information, the truth thereof may be given in evidence; and in all indictments for libel, the jury shall be the judges of the law and the facts.

SECTION 9. No person shall be deprived of the right to worship God according to the dictates of his own conscience; *Provided*, That the liberty of conscience hereby declared shall not justify practices inconsistent with the peace and moral safety of society.

SECTION 10. No form of religion shall be established by law; but it shall be the duty of the General Assembly to pass suitable laws to protect every religious denomination in the peaceable enjoyment of its own mode of worship.

SECTION 11. The right of trial by jury shall remain inviolate.

SECTION 12. No person shall be disqualified as a witness, or be prevented from acquiring, holding and transmitting property, or be hindered in acquiring education, or be liable to any other punishment for any offence, or be subjected in law to any other restraints or disqualifications in regard to any personal rights than such as are laid upon others under like circumstances.

SECTION 13. No person shall be held to answer for any crime or offence until the same is fully, fairly, plainly, substantially and formally described to him; or be compelled to accuse or furnish evidence against himself; and every person shall have a right to produce all proofs that may be favorable to him, to meet the witnesses against

him face to face, to have a speedy and public trial by an impartial jury, and to be fully heard in his defence by himself or by his counsel, or by both, as he may elect.

SECTION 14. No person shall be arrested, imprisoned, despoiled or dispossessed of his property, immunities or privileges, put out of the protection of the law, exiled or deprived of his life, liberty, or estate, but by the judgment of his peers or the law of the land. And the General Assembly shall not enact any law that shall subject any person to punishment without trial by jury; nor shall he be punished but by virtue of a law already established, or promulgated prior to the offence, and legally applied.

SECTION 15. All Courts shall be public, and every person, for any injury that he may receive in his lands, goods, person or reputation, shall have remedy by due course of law and justice administered without unnecessary delay.

SECTION 16. All persons shall, before conviction, be bailable by sufficient sureties, except for capital offences, when the proof is evident or the presumption great; and excessive bail shall not, in any case, be required, nor corporal punishment inflicted.

SECTION 17. The privilege of the writ of *Habeas Corpus* shall not be suspended, except when, in case of insurrection, rebellion or invasion, the public safety may require it.

SECTION 18. No person, after having been once acquitted by a jury, shall again, for the same offence, be put in jeopardy of his life or liberty.

SECTION 19. All offences less than felony, and in which the punishment does not exceed a fine of one hundred dollars, or imprisonment for thirty days, shall be tried summarily before a Justice of the Peace, or other officer authorized by law, on information under oath, without indictment or intervention of a Grand Jury, saving to the defendant the right of appeal; and no person shall be held to answer for any higher crime or offence unless on presentment of a Grand Jury, except in cases arising in the land and naval service, or in the militia when in actual service in time of war or public danger.

SECTION 20. No person shall be imprisoned for debt, except in cases of fraud; and a reasonable amount of property, as a homestead, shall be exempted from seizure or sale for the payment of any debts or liabilities, except for the payment of such obligations as are provided for in this Constitution.

SECTION 21. No bill of attainder, *ex post facto* law, nor any law impairing the obligation of contracts, shall ever be enacted; and no conviction

shall work corruption of blood or forfeiture of estate.

SECTION 22. All persons have a right to be secure from unreasonable searches or seizures of their persons, houses, papers or possessions. All warrants shall be supported by oath or affirmation, and the order of the warrant to a civil officer to make search or seizure in suspected places, or to arrest one or more suspected persons, or to seize their property, shall be accompanied with a special designation of the persons or objects of search, arrest or seizure; and no warrant shall be issued but in the cases and with the formalities prescribed by the laws.

SECTION 23. Private property shall not be taken or applied for public use, or for the use of corporations, or for private use, without the consent of the owner or a just compensation being made therefore; *Provided, however,* That laws may be made securing to persons or corporations the right of way over the lands of either persons or corporations, and, for works of internal improvement, the right to establish depots, stations, turn-outs, etc.; but a just compensation, shall, in all cases, be first made to the owner.

SECTION 24. The power of suspending the laws, or the execution of the laws, shall never be exercised but by the General Assembly, or by authority derived therefrom; to be exercised in such particular cases only as the General Assembly shall expressly provide for.

SECTION 25. No person shall, in any case, be subject to martial law, or to any pains or penalties by virtue of that law, except those employed in the army or navy of the United States, and except the militia in actual service, but by authority of the General Assembly.

SECTION 26. In the government of this Commonwealth, the Legislative, Executive and Judicial powers of the Government shall be forever separate and distinct from each other, and no person or persons exercising the functions of one of said departments shall assume or discharge the duties of any other.

SECTION 27. The General Assembly ought frequently to assemble for the redress of grievances and for making new laws as the common good may require.

SECTION 28. The people have a right to keep and bear arms for the common defence. As in times of peace, armies are dangerous to liberty, they ought not to be maintained without the consent of the General Assembly. The military power ought always to be held in an exact subordination to the civil authority and be governed by it.

SECTION 29. In time of peace no soldier shall be quartered in any house without the consent of the owner; and, in time of war, such quarters shall not be made but in a manner prescribed by law.

SECTION 30. No person who conscientiously scruples to bear arms shall be compelled so to do, but he shall pay an equivalent for personal service.

SECTION 31. All elections shall be free and open, and every inhabitant of this Commonwealth possessing the qualifications provided for in this Constitution, shall have an equal right to elect officers and be elected to fill public office.

SECTION 32. No property qualification shall be necessary for an election to or the holding of any office, and no office shall be created, the appointment to which shall be for a longer time than good behavior. After the adoption of this Constitution, any person who shall fight a duel, or send or accept a challenge for that purpose, or be an aider or abetter in fighting a duel, shall be deprived of holding any office of honor or trust in this State, and shall be otherwise punished as the law shall prescribe.

SECTION 33. The right of suffrage shall be protected by laws regulating elections, and prohibiting, under adequate penalties, all undue influences from power, bribery, tumult or improper conduct.

SECTION 34. Representation shall be apportioned according to population, and no person in this State shall be disfranchised or deprived of any of the rights or privileges now enjoyed except by the law of the land or the judgment of his peers.

SECTION 35. Temporary absence from the State shall not forfeit a residence once obtained.

SECTION 36. All property subject to taxation shall be taxed in proportion to its value. Each individual of society has a right to be protected in the enjoyment of life, liberty and property according to standing laws. He should, therefore, contribute his share to the expense of his protection and give his personal service when necessary.

SECTION 37. No subsidy, charge, impost tax or duties shall be established, fixed, laid or levied, under any pretext whatsoever, without the consent of the people or their representatives lawfully assembled.

SECTION 38. Excessive fines shall not be imposed, nor cruel and unusual punishment inflicted, nor shall witnesses be unreasonably detained.

SECTION 39. No title of nobility or hereditary emolument shall ever be granted in this State. Distinction on account of race or color, in any case whatever, shall be prohibited, and all classes of

citizens shall enjoy equally all common, public, legal and political privileges.

SECTION 40. All navigable waters shall remain forever public highways, free to the citizens of the State and the United States, without tax, impost or toll imposed; and, no tax, toll, impost or wharfage shall be imposed, demanded or received from the owner of any merchandise or commodity, for the use of the shores or any wharf erected on the shores, or in or over the waters of any navigable stream, unless the same be authorized by the General Assembly.

SECTION 41. The enumeration of rights in this Constitution shall not be construed to impair or deny others retained by the people, and all powers not herein delegated remain with the people. . . .

#### ARTICLE VIII: RIGHT OF SUFFRAGE

SECTION 1. In all elections by the people the electors shall vote by ballot.

SECTION 2. Every male citizen of the United States, of the age of twenty-one years and upwards, not laboring under the disabilities named in this Constitution, without distinction of race, color, or former condition, who shall be a resident of this State at the time of the adoption of this Constitution, or who shall thereafter reside in this State one year, and in the County in which he offers to vote, sixty days next preceding any election, shall be entitled to vote for all officers that are now, or hereafter may be, elected by the people, and upon all questions submitted to the electors at any elections; *Provided*, That no person shall be allowed to vote or hold office who is now or hereafter may be disqualified therefor by the Constitution of the United States, until such disqualification shall be removed by the Congress of the United States; *Provided further*, That no person, while kept in any alms house or asylum, or of unsound mind, or confined in any public prison, shall be allowed to vote or hold office.

SECTION 3. It shall be the duty of the General Assembly to provide from time to time for the registration of all electors.

SECTION 4. For the purpose of voting no person shall be deemed to have lost his residence by reason of absence while employed in the service of the United States, nor while engaged upon the waters of this State or the United States, or of the high seas, nor while temporarily absent from the State.

SECTION 5. No soldier, seaman or marine in the army or navy of the United States shall be deemed a resident of this State in consequence of having been stationed therein.

SECTION 6. Electors shall, in all cases, except



treason, felony or breach of the peace, be privileged from arrest and civil process during their attendance at elections, and in going to and returning from the same.

SECTION 7. Every person entitled to vote at any election shall be eligible to any office which now is or hereafter shall be elective by the people in the County where he shall have resided sixty days previous to such election, except as otherwise provided in this Constitution or the Constitution and laws of the United States.

SECTION 8. The General Assembly shall never pass any law that will deprive any of the citizens of this State of the right of suffrage except for treason, murder, robbery, or duelling, whereof the persons shall have been duly tried and convicted.

SECTION 9. Presidential electors shall be elected by the people.

SECTION 10. In all elections held by the people under this Constitution, the person or persons who shall receive the highest number of votes shall be declared elected.

SECTION 11. The provision of this Constitution concerning the term of residence necessary to enable persons to hold certain offices therein mentioned, shall not be held to apply to officers chosen by the people at the first election, or by the General Assembly at its first session.

SECTION 12. No person shall be disfranchised for felony, or other crimes committed while such person was a slave.

#### ARTICLE IX: FINANCE AND TAXATION

SECTION 1. The General Assembly shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal and possessory, except mines and mining claims, the proceeds of which alone shall be taxed; and also excepting such property as may be exempted by law for municipal, educational, literary, scientific, religious or charitable purposes.

SECTION 2. The General Assembly may provide annually for a poll tax not to exceed one dollar on each poll, which shall be applied exclusively to the public school fund. And no additional poll tax shall be levied by any municipal corporation.

SECTION 3. The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year; and whenever it shall happen that such ordinary expenses of the State for any year shall exceed the income of the State for such year, the General

Assembly shall provide for levying a tax for the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year, together with the estimated expenses of the ensuing year.

SECTION 4. No tax shall be levied except in pursuance of a law, which shall distinctly state the object of the same; to which object such tax shall be applied.

SECTION 5. It shall be the duty of the General Assembly to enact laws for the exemption from taxation of all public schools, colleges, and institutions of learning, all charitable institutions in the nature of asylums for the infirm, deaf and dumb, blind, idiotic and indigent persons, all public libraries, churches and burying grounds; but property of associations and societies, although connected with charitable objects, shall not be exempt from State, County or Municipal taxation; *Provided*, That this exemption shall not extend beyond the buildings and premises actually occupied by such schools, colleges, institutions of learning, asylums, libraries, churches and burial grounds, although connected with charitable objects.

SECTION 6. The General Assembly shall provide for the valuation and assessment of all lands and the improvements thereon prior to the assembling of the General Assembly of one thousand eight hundred and seventy, and thereafter on every fifth year.

SECTION 7. For the purpose of defraying extraordinary expenditures, the State may contract public debts; but such debts shall be authorized by law for some single object, to be distinctly specified therein; and no such law shall take effect until it shall have been passed by the vote of two-thirds of the members of each branch of the General Assembly, to be recorded by yeas and nays on the journals of each House respectively; and every such law shall levy a tax annually sufficient to pay the annual interest of such debt.

SECTION 8. The corporate authorities of Counties, Townships, School Districts, Cities, Towns and Villages may be vested with power to assess and collect taxes for corporate purposes; such taxes to be uniform in respect to persons and property within the jurisdiction of the body imposing the same. And the General Assembly shall require that all the property, except that heretofore exempted within the limits of municipal corporations, shall be taxed for the payment of debts contracted under authority of law.

SECTION 9. The General Assembly shall provide for the incorporation and organization of cities and towns, and shall restrict their powers



of taxation, borrowing money, contracting debts, and loaning their credit.

SECTION 10. No scrip, certificate, or other evidence of State indebtedness shall be issued, except for the redemption of stock, bonds, or other evidences of indebtedness previously issued, or for such debts as are expressly authorized in this Constitution.

SECTION 11. An accurate statement of the receipt and expenditures of the public money shall be published with the laws of each regular session of the General Assembly in such manner as may, by law, be directed.

SECTION 12. No money shall be drawn from the Treasury but in pursuance of appropriations made by law.

SECTION 13. The fiscal year shall commence on the first day of November in each year.

SECTION 14. Any debt contracted by the State shall be by loan on State Bonds, of amounts not less than fifty dollars each, on interest, payable within twenty years after the final passage of the law authorizing such debt. A correct registry of all such bonds shall be kept by the Treasurer in numerical order, so as always to exhibit the number and amount unpaid, and to whom severally made payable.

SECTION 15. Suitable laws shall be passed by the General Assembly for the safe keeping, transfer and disbursement of the State, County and School funds, and all officers and other persons charged with the same, shall keep an accurate entry of each sum received, and of each payment and transfer; and shall give such security for the faithful discharge of such duties as the General Assembly may provide. And it shall be the duty of the General Assembly to pass laws making embezzlement of such funds a felony, punishable by fine and imprisonment proportioned to the amount of deficiency or embezzlement, and the party convicted of such felony shall be disqualified from ever holding any office of honor or emolument in this State; *Provided, however,* That the General Assembly by a two-thirds vote, may remove the disability upon payment in full of the principal and interest of the sum embezzled.

SECTION 16. No debt contracted by this State in behalf of the late rebellion, in whole or in part, shall ever be paid.

#### ARTICLE X: EDUCATION

SECTION 1. The supervision of public instruction shall be vested in a State Superintendent of Education, who shall be elected by the qualified electors of the State in such manner and at such time as the other State officers are elected; his

powers, duties, term of office and compensation shall be defined by the General Assembly.

SECTION 2. There shall be elected biennially, in each County, by the qualified electors thereof, one School Commissioner, said Commissioners to constitute a State Board of Education, of which the State Superintendent shall, by virtue of his office, be Chairman; the powers, duties, and compensation of the members of said Board shall be determined by law.

SECTION 3. The General Assembly shall, as soon as practicable after the adoption of this Constitution, provide for a liberal and uniform system of free public schools throughout the State, and shall also make provision for the division of the State into suitable School Districts. There shall be kept open at least six months in each year one or more schools in each School District.

SECTION 4. It shall be the duty of the General Assembly to provide for the compulsory attendance, at either public or private schools, of all children between the ages of six and sixteen years, not physically or mentally disabled, for a term equivalent to twenty-four months, at least: *Provided,* That no law to that effect shall be passed until a system of public schools has been thoroughly and completely organized, and facilities afforded to all the inhabitants of the State for the free education of their children.

SECTION 5. The General Assembly shall levy at each regular session after the adoption of this Constitution an annual tax on all taxable property throughout the State for the support of public schools, which tax shall be collected at the same time and by the same agents as the general State levy, and shall be paid into the Treasury of the State. There shall be assessed on all taxable polls in the State an annual tax of one dollar on each poll, the proceeds of which tax shall be applied solely to educational purposes. *Provided,* That no person shall ever be deprived of the right of suffrage for the non-payment of said tax. No other poll or capitation tax shall be levied in the State, nor shall the amount assessed on each poll exceed the limit given in this section. The School Tax shall be distributed among the several School Districts of the State, in proportion to the respective number of pupils attending the public schools. No religious sect or sects shall have exclusive right to, or control of any part of the school funds of the State, nor shall sectarian principles be taught in the public schools.

SECTION 6. Within five years after the first regular session of the General Assembly, following the adoption of this Constitution, it shall be the duty of the General Assembly to provide for the

establishment and support of a State Normal School, which shall be open to all persons who may wish to become teachers.

SECTION 7. Educational institutions for the benefit of all the blind, deaf and dumb, and such other benevolent institutions, as the public good may require, shall be established and supported by the State, subject to such regulations as may be prescribed by law.

SECTION 8. Provisions shall be made by law, as soon as practicable, for the establishment and maintenance of a State Reform School for juvenile offenders.

SECTION 9. The General Assembly shall provide for the maintenance of the State University, and as soon as practicable, provide for the establishment of an Agricultural College, and shall appropriate the land given to this State, for the support of such a college, by the Act of Congress, passed July second, one thousand eight hundred and sixty-two, or the money or scrip, as the case may be arising from the sale of said lands, or any lands which may hereafter be given or appropriated for such purpose, for the support and maintenance of such college, and may make the same a branch of the State University, for instruction in Agriculture, the Mechanic Arts, and the Natural Sciences connected therewith.

SECTION 10. All the public schools, colleges, and universities of this State supported in whole or in part by the public funds, shall be free and open to all the children and youths of the State, without regard to race or color.

SECTION 11. The proceeds of all lands that have been or hereafter may be given by the United States to this State for educational purposes, and not otherwise appropriated by this State or the United States, and of all lands or other property given by individuals, or appropriated by the State for like purpose, and of all estates of deceased persons who have died without leaving a will or heir, shall be securely invested and sacredly preserved as a State School Fund, and the annual interest and income of said fund, together with such other means as the General Assembly may provide, shall be faithfully appropriated for the purpose of establishing and maintaining free public schools, and for no other purposes or uses whatever.

#### ARTICLE XI: CHARITABLE AND PENAL INSTITUTIONS

SECTION 1. Institutions for the benefit of the insane, blind, deaf and dumb, and the poor, shall always be fostered and supported by this State, and shall be subject to such regulations as the General Assembly may enact.

SECTION 2. The Directors of the Penitentiary shall be elected or appointed, as the General Assembly may direct.

SECTION 3. The Directors of the benevolent and other State institutions, such as may be hereafter created, shall be appointed by the Governor, by and with the consent of the Senate; and upon all nominations made by the Governor, the question shall be taken by yeas and nays, and entered upon the journals.

SECTION 4. The Governor shall have power to fill all vacancies that may occur in the offices aforesaid, until the next session of the General Assembly, and until a successor or successors shall be appointed and confirmed.

SECTION 5. The respective Counties of this State shall make such provision, as may be determined by law, for all those inhabitants who by reason of age, and infirmities or misfortunes, may have a claim upon the sympathy and aid of society.

SECTION 6. The Physician of the Lunatic Asylum, who shall be superintendent of the same, shall be appointed by the Governor, with the advice and consent of the Senate. All other necessary officers and employes shall be appointed by the Governor.

#### ARTICLE XII: CORPORATIONS

SECTION 1. Corporations may be formed under general laws; but all such laws may from time to time be altered or repealed.

SECTION 2. The property of corporations now existing or hereafter created, shall be subject to taxation, except in cases otherwise provided for in this Constitution.

SECTION 3. No right of way shall be appropriated to the use of any corporation until full compensation therefor shall be first made; or secured by a deposit of money to the owner, irrespective of any benefit from any improvement proposed by such corporation, which compensation shall be ascertained by a jury of twelve men, in a Court of Record, as shall be prescribed by law.

SECTION 4. Dues from corporations shall be secured by such individual liability of the stockholders and other means, as may be prescribed by law.

SECTION 5. All general laws and special acts passed pursuant to this section, shall make provisions therein for fixing the personal liability of stockholders under proper limitations; and shall prevent and punish fraudulent misrepresentations as to the capital property and resources of such corporations; and shall also regulate the public use of all franchises which have heretofore been, or hereafter may be created or granted, by or under

the authority of this State, and shall limit all tolls, imposts, and other charges and demands under such laws.

SECTION 6. The General Assembly shall grant no charter for banking purposes, nor renew any banking corporations now in existence, except upon the condition that the stockholders shall be liable to the amount of their respective share or shares of stock in such banking institution, for all its debts and liabilities, upon note, bill, or other-

wise; and upon the further condition that no director or other officer of said corporation shall borrow any money from said corporation; and if any director or other officer shall be convicted upon indictment of directly or indirectly violating this Section, he shall be punished by fine or imprisonment, at the discretion of the Court. The books, papers, and accounts of all banks shall be open to inspection, under such regulations as may be prescribed by law.

## JOINT SELECT COMMITTEE

IN 1867, the disfranchised Southern whites, faced by Negro suffrage and military administration under the Reconstruction Acts, set about recapturing their rights through the creation of secret societies like the Ku-Klux Klan. Whatever the purposes of the original organizers may have been, these societies soon became secret terrorist bands using the lash, the gun and the rope, and attacking both whites and freedmen. The movement was not two years old before its leaders realized the social implications of secret government by organized violence and ordered the Klan disbanded as an interstate organization.

Local societies continued, however, and their methods did not become less effective—or more gentle. In 1871, the activity of local klans in North Carolina had reached the point where order could not be preserved. Federal supervision of Congressional elections had been authorized in February, but in April accounts of conditions in North Carolina provoked Congress to the passage of a law giving to the Federal government the authority to deal with secret conspiracies. By the same act, the President was authorized to suspend the writ of habeas corpus and use the army to put down disturbances in the affected areas.

Opposition to the breadth of this program led to the establishment by Congress of a "Joint Select Committee to Inquire into the Condition of Affairs in the Late Insurrectionary States." This Committee divided itself into several subgroups which took testimony on the spot as well as in Washington. The

majority reported the existence of widespread disorders motivated by the attempt to restore white supremacy. One of the witnesses declared that "the people of Georgia will vote the negro population whenever we are left to ourselves." Since the bulk of Southern property still remained in the hands of disfranchised ex-rebels, they necessarily retained their influence in the South, the Subcommittee on State Debts and Election Laws reported. It suggested the removal of those disabilities, therefore, and the consequent coupling of responsibility with financial power. For the rest, the country should have patience and enforce the law.

The minority report is far less complacent in tone. The people of the South have been "defamed" and made the victim of "unspeakable outrage." Most of the testimony offered the Committee is mere hearsay report of matters which occurred from two to six years earlier. Actually, both life and property were entirely safe in the South and there was no excuse for giving the President extraordinary power. The Southern people had believed that repeal of the ordinances of secession and the recognition of emancipation would restore them to their former position in the Union. Instead, they had been subjected to misrule and exploitation by Northerners and Negroes. And the minority report referred to the case of the South Carolina State Senator, Beverly Nash, who had told a Negro public meeting that taxes should be raised until the planters were forced to "put these lands back where they

belong into the hands of those who worked for them. You toiled for them, you labored for them and were sold to pay for them and you ought to have them."

The Joint Select Committee's thirteen volumes of testimony, poor legal evidence though they may be, relate how white property own-

ers reestablished themselves in control of their communities. An excerpt from the minority report is printed here and also portions of the testimony. The *Report* of the Joint Select Committee was printed as Senate Document No. 411, 42d Congress, 2d Session (Washington, 1872).

### *Minority Report*

BY THE JOINT SELECT COMMITTEE

... WHILE WE do not intend to deny that bodies of disguised men have, in several of the States of the South, been guilty of the most flagrant crimes, crimes which we neither seek to palliate nor excuse, for the commission of which the wrongdoers should, when ascertained and duly convicted, suffer speedy and condign punishment, we deny that these men have any general organization, or any political significance, or that their conduct is indorsed by any respectable number of the white people in any State; on the contrary, the men and the bands by which such outrages are perpetrated are almost universally regarded by the intelligent people of the several States as the worst enemies of the South, as they furnish the men now in power at Washington the only excuse left to maintain war upon them, and to continue the system of robbery and oppression which they have inaugurated—a system which is destructive not only of their peace and prosperity, but is intended to blacken and malign their character as men before the country and the world. We will show, by testimony incontrovertible, that in no one of the six States of North and South Carolina, Georgia, Alabama, Mississippi, and Florida, has there, at any time, existed combinations of lawless men in one-tenth part of any one of said States.

These six States have, in the aggregate, a population of 4,973,738, and the total number of their counties exceeds 420. We do not fear successful contradiction when we say that there never was a disguised band in one-tenth part of them, or in over 40 of these 420 counties, simply in a county here and there, or at most in one or two counties together in several of these States have such bands committed depredations; and we will show to all men not blinded by prejudice or passion, that the Ku-Klux bill, and the proceedings thereunder are the grossest outrage, the foulest calumny, ever perpetrated or circulated upon or against a helpless people by their rulers—who ought, for that reason if for no other, to be their friends instead

of being their relentless enemies and calumniators.

To make our report clear and intelligible to the mass of the American people, on whose innate honesty and sense of justice we rely—for we fear no facts will have any effect on the partizan majority in Congress, who have already shown by the passage of the Ku-Klux bill against their will and judgment that they dare not disobey the orders of their imperious, not to say imperial President, it will be necessary to state briefly the legislation of Congress and the acts of the Executive relative to the States of the South for the last five years. When that is done, their present condition and the political opinions and feelings of that people will be readily understood; and much that, without a recollection of these things, would appear strange to a western or northern man living in a well ordered community, with all his rights properly protected by officers duly elected, and equally interested with himself in the maintenance of law and order, and in the just and equal protection of the lives, liberty, and property of all men of all political parties, will be readily comprehended.

It is shown that, when the war ended, the people of the South, relying on the promises made by the Federal generals while their commands were in the field, on the negotiations preceding the surrender, on the proclamation of the President, and the utterances of both the press and the public men of the North, as well as upon the terms actually agreed on between Generals Grant and Sherman, and Generals Lee and Johnston, at the time of the capitulation of the armies of the latter, were induced to believe, and did believe, that when resistance to Federal authority ceased, and the supremacy of the Constitution of the United States was recognized in the seceded States, and especially after the ordinances of secession were repealed and an amendment to the Constitution abolishing slavery everywhere was ratified by their legislatures, that a full and complete restora-

tion of the Southern States, and the people thereof, to their former position of coequal States in the Union would at once take place; and after the exhaustion of such a terrible war, they hailed the return of peace upon such terms not only with satisfaction, but with delight. They acknowledged defeat, accepted the situation, went to work earnestly to build up their waste places, retrieve their lost fortunes, and were determined honestly and earnestly to support, defend, and maintain the Union and the Constitution. Large numbers of the southern people in the seceded States had never felt any hostility to the General Government, and had only followed the fortunes of their States and people during the war, when they were impotent to resist, and when it was folly to oppose the action of those in authority.

It was not to be expected that such a mass of men as composed the confederate army, and were connected with its administration, could at once return to the ordinary avocations of civil life without confusion or disturbance. The men who composed the Federal Army, when the war closed, found, on their return to their homes, a healthy, prosperous, peaceful, and well-organized society, into which they were not only received and welcomed, but were properly made the recipients of whatever it was in the power of the people to bestow; while the Government of the United States with a lavish hand provided, through the medium of pay, pensions, and bounties, for their wants and sufferings. It was not so in the South.

There society was greatly disorganized; the strain upon the people to supply the armies in the field had exhausted their resources; the regions which had been the scene of active military operations were laid waste; starvation stared the people in the face; labor was absolutely demoralized; the negro population, which, as slaves, had furnished the great bulk of their labor, being liberated; in their poverty, ignorance, and incapacity to appreciate the effect of their altered condition, were slow to realize the necessity for constant and continued labor on their part, so that the confederate soldier, and all others who had, during the years of war, devoted themselves to that cause, found, on the return of peace, nothing but poverty and ruin in all their land, and themselves absolutely beggars among a people who had nothing to give.

Under such circumstances it was, as before stated, impossible to restore harmony in civil government without some confusion; yet, so earnestly did that people struggle to return to their

allegiance, and thus entitle themselves to the protection which had been promised to them, that, from the day of the surrender of their armies, no hostile arm has ever been raised against the authority of the United States.

Before even breathing-time was allowed them, a set of harpies, most of whom had shirked the dangers of the battle-field, camp-followers, horseholders, "cow-boys," plunderers from both sides during all the years of strife, rushed down singly and in squads on that people, thus prostrate and defenseless, and for their own private gain seized and carried off whatever could be found worth seizing in that country. All remonstrance or resistance was stifled and crushed out by the cry of disloyalty and treason they raised against the southern people, and by the pretense that the plunderers were persecuted because of their loyalty and devotion to the Union, and especially to the republican party and its continued supremacy. . . .

The men of the South, under the programme laid down for them, reorganized their State governments, elected Representatives and Senators to Congress, ratified the thirteenth amendment to the Constitution of the United States by their State legislatures, conferred by law all civil rights on their emancipated slaves, in short, did all that they thought the Federal Government wanted them to do.

But they were mistaken; they had failed to elect men to Congress who would blindly obey the orders of the leaders who then dictated and were determined to continue to dictate the legislation of the country. A system had grown up whereby great, protected, and moneyed monopolies were fostered and enriched at the expense of labor, and especially of agricultural labor, which it was not believed the representatives of southern constituencies would sustain. The doors of Congress were closed upon them (of course not avowedly for the true reason) and, so far as they were concerned, taxation without representation was their fate from that time forward, and has so continued with some exceptions substantially until now. When they had not a Representative in Congress a tax of three cents a pound was levied upon all cotton exported, that being their great staple product, while every other portion of the country could export its products duty free.

The Freedmen's Bureau bill and the civil-rights bill were next imposed upon them by the other States. (We perhaps ought to say that Tennessee had, in the mean time, sent men to Congress will-

ing to obey all orders of their party leaders, and they had been admitted, of course.)

Then followed the series of reconstruction measures, with the fourteenth and fifteenth amendments, which they were required to accept, indorse, and approve, as a condition precedent to being allowed to have any civil government at all; because, until that was done, the liberty and property of every man, woman, and child, loyal and disloyal, white and black, were held at the mercy of any soldier who might be placed over them.

Men in the Northern and Western States have but a faint idea of the oppressions wantonly heaped upon the people of the South; of the insolence of the adventurers who were made their masters; of the strife they stirred up by their appeals to the worst passions of the ignorant negroes, inciting them to crimes, and deceiving them by false promises of conferring upon them the property of their former masters, in order that they, by the votes of the negroes, might ride into power and place, which they never would have thought of at home, and thus be enabled to rob and plunder a people whose most intelligent men and largest property-holders were disfranchised by Congress, the more surely to enable the Freedmen's Bureau agents, and other adventurers, to obtain and hold undisputed possession of all the functions of government, State and Federal.

A careful reading of the testimony taken by the committee—for on these points there is no dispute and no conflict—would convince every impartial man that the endurance and long-suffering of that people has been such as no people ever before exhibited.

We have not the space to set forth one-tenth part of the proof taken, illustrating, we might say demonstrating, the truth of our assertions; but we feel it to be incumbent upon us, as the testimony is too voluminous to be read, to give some extracts from a few of the many intelligent witnesses examined, especially as to the kind of men put in authority by Congress, and their management of the negro. . . .

#### TESTIMONY

Washington, D.C., August 4, 1871.

HENRY B. WHITFIELD SWORN and examined.

*Question.* Where do you reside?

*Answer.* At Columbus, Mississippi.

*Question.* In what county is Columbus?

*Answer.* Lowndes County.

*Question.* How long have you lived there?

*Answer.* Since February, 1839.

*Question.* Are you a native of Mississippi?

*Answer.* No, sir; I was born in the State of Georgia; I have resided in Mississippi since I was three years old.

*Question.* Are you a son of Ex-Governor Whitfield, of Mississippi?

*Answer.* Yes, sir.

*Question.* Have you ever held any public positions in the State?

*Answer.* Yes, sir; I am at present mayor of the city of Columbus.

*Question.* Have you been mixing with the people of Lowndes and the adjoining counties, and have you been engaged in business with them so as to know the condition of affairs generally?

*Answer.* I am familiar with people in my own and the adjoining counties, having mingled with them considerably. My position has been such as to bring me in frequent contact with them.

*Question.* What business are you engaged in at this time?

*Answer.* I am an attorney-at-law, and am engaged in the practice of the law, in addition to my official position as mayor of the city.

*Question.* This committee is charged with inquiring into the condition of affairs in Mississippi and other States, especially in reference to the safety of property and life, and the due execution of the law. State anything you know on that subject.

*Answer.* I consider that in the counties in Eastern Mississippi particularly, and on the Alabama line, and in North Mississippi, on the Tennessee line, there is considerable insecurity to liberty of person, and in some instances to life, unless a party espouses certain opinions.

*Question.* What opinions do you mean?

*Answer.* I mean that if a white man, an old citizen of the county, is known to be a member of the republican party, the people are very intolerant toward him; and if a northern man who has come there is a republican they are a little worse toward him; and toward the black people, unless they are willing to vote as the people there desire them to vote, they are very intolerant.

*Question.* State the extent to which this intolerance is carried with reference to any or all of these classes.

*Answer.* So far as I am personally concerned, I have lived there so long, and the people know me so well, that there has been no particular proscription in regard to myself. Nobody has ever attempted anything toward me, or said anything offensive about me, so far as I am aware.

*Question.* The rule adopted by this committee

is different from that practiced in courts of law as to the admission of testimony. You can state here, not only what you know upon personal knowledge, but what you know from others whom you believe entitled to credit.

*Answer.* Well, sir, of my personal knowledge I know nothing on this subject; but from the evidence of others, who I believe are entitled to the greatest credit, and, in fact, from a cloud of witnesses, I can state many things that have occurred in the country there showing the insecurity of personal liberty and the expression of opinion.

*Question.* Take first your own county of Lowndes, and state the condition of things there.

*Answer.* I will state in the first place that the county of Lowndes immediately adjoins the State of Alabama. It is one of the largest and wealthiest counties in the State. I believe it is the second largest in wealth and population. The county is almost equally divided by the Tombigbee River. The eastern part of it is a sandy country; the western part a very rich prairie country. There is a large black population in the county, particularly on the western side of the river; on the eastern side, although there is considerable black population, the white people rather preponderate. Back as far as the year 1868 was the first time that we had any indications there of any organizations which appeared to be for improper purposes—for the purpose of controlling opinion or making people do as they wanted them to do. Such organizations then existed, being organized during the campaign of 1868—at the time of the election for the convention in the State. During 1869 and a part of 1870, we did not hear of anything of the kind to any extent in Lowndes County. But last February the thing seemed to have broken loose again with every indication of violence, and to a very outrageous extent in the northeastern part of the county.

*Question.* The part of the county bordering on the Alabama line?

*Answer.* Yes, sir; the part bordering on the Alabama line; and then along the line of Monroe County, the county in Mississippi immediately north of us. I will state that the first outbreak which occurred was in the latter part of February of the present year. The victim was a negro named James Hicks. I saw him after the occurrence; I went out with the superintendent of education to see him. He had lived up in the neighborhood of Caledonia, which is in the northeastern corner of the county. It was charged that while there he had used some improper language in regard to some white ladies of the neighborhood; and these people determined, I suppose, that he should suffer

for it. He had moved down some seven miles below that, into another neighborhood. They found out where he lived, followed him down there, and took him out one night. From the best information I could get, there were from one hundred to one hundred and twenty disguised men, who were armed heavily. They took him out into the public road and whipped him. The statements of the witnesses varied considerably as to the amount of whipping he received. The lowest estimate that I heard was three hundred lashes; some of the black people who were present thought it was as high as one thousand. I have no doubt myself, from the man's appearance two days afterward, and from the evidence in the case, that he was very severely beaten. He was ordered to leave the country in ten days under penalty of being hung. The party then went from this man's house to one of the public school-houses, which was about half a mile distant. A gentleman named H. W. Farmer was teaching the school at that place. He was an innocent, inoffensive white man. The board of school directors of the county, (of which body I am a member,) on sending him out to the neighborhood, had told him to endeavor to get board with some white family in the neighborhood, and we gave him letters of introduction for that purpose. We desired to avoid every appearance of anything that would give any cause for suspicion or complaint. When he went out there he applied to three or four white families in the neighborhood to get board, but did not succeed. He then got a house from an old black man who lived near the school-house, and he had his room, his bedding, and everything of that kind in this house to himself. These black people prepared his meals for him and carried them to the house where he slept. This party went to his house and called him out. He came to the door and asked them what they desired. They told him they wanted to talk with him. They said that he had no business in the country teaching free schools, that they were going to break them all up; that the system was a grand humbug, an imposition upon the people, and that they were determined there should be nothing of the kind in that part of the country. They told him they did not intend that night to do him any harm, but that they were coming back in ten days, and if he was there at the end of that time he would find himself dangling at the end of a rope. There was considerable excitement among the people of the neighborhood. The next day the man came into the town of Columbus, the county seat, with a good many of the freedmen. The circuit court was then in session, Judge Jehu A. Orr, a brother of James L.



Orr, of South Carolina, presiding. The town papers published an account of the affair, stating that a Ku-Klux outrage had been committed, or that the Ku-Klux had visited a negro at a certain place, and run off a school-teacher named Farmer, or something to that effect. The grand jury came into court that morning to adjourn, having finished their business, as they said. The judge, however, called their attention to this article in the paper, and told them that the matter had also been brought to his attention by other parties, and that he could not suffer the grand jury to adjourn until they had made a thorough investigation of that matter; that the affair had occurred almost within hearing of the court; that he was determined to have the law executed if it could possibly be done; that they must return to their room, summon witnesses, and make a thorough investigation of the case. . . .

*Question.* The school which had been kept by Mr. Farmer was broken up?

*Answer.* Yes, sir, broken up completely. There has been no school there since. That same night they went after a negro by the name of Perkins; I forget his first name. There was an idea through the country that he had been stealing hogs—that he was in the habit of stealing. They went after him, but they did not find him. He ran off when he found that they were coming, and took to the woods.

After that there seemed to be gotten up a great deal of feeling in that part of the country; in fact all through the country, in regard to the public schools. There seemed to be a general concerted raid made by a large body of these disguised men or Ku Klux. They visited seven others of our school teachers and ordered them to stop teaching. I believe I can state candidly that I have no motive on earth to say anything on this subject calculated to injure the people there. There are many of us in that country who are most intensely opposed to all such illegal methods of proceeding; not only on account of their being in gross violation of the law and the constitution, and, tending to the upturning of society, but we oppose them upon principles of political economy and for other reasons that can be urged. There could have been nothing in the management of those schools to induce such action. I can illustrate this remark by referring to the schools in detail. I begin with the schools in the most northeasterly part of the country, immediately adjoining the Alabama line. A school was taught there by a man named William B. Kolb, an old citizen of the country, who had lived there ever since I can recollect. He was for a number of years a member

of the board of police or the board of supervisors of the county. As a man he had the confidence of everybody in the community. He was one of the teachers who were ordered to quit.

*Question.* Did he finally quit?

*Answer.* Yes, sir. They were all afraid; and they did not dare to teach school after receiving these warnings. After a time the board of school directors met and passed a resolution that if any of the teachers desired to continue their schools as pay schools they could do so and could have the use of the houses and the school-furniture. Some few of them resumed in that way; but every one of them ceased to carry on his school as a public school. In fact, we could offer them no inducement sufficient to make them continue. They were afraid of their lives. That was what they said. . . .

*Question.* These things occurred last February?

*Answer.* Yes, sir, along in February or March. There were five other schools broken up of pretty much the same character as these. Only two of the schools were taught by northern men. These were men who had come down there some two or three years before, and had conducted themselves with propriety. The other schools were all taught by old citizens of the country.

*Question.* Were any school-houses burned in that section of the country?

*Answer.* No, sir, none were burned. . . .

*Question.* Is there anything else you wish to state upon the subject of schools?

*Answer.* I would like to state that I have here a circular issued by the county superintendent, which I would like the committee to examine, and I would be glad to have it appended to my testimony. I wish also to state that the great idea which seemed to prevail among those people in that section of the country was intense opposition to schools for the blacks; that was the great hobby; they said they were not in favor of having people pay tax to educate the negroes. There are in this circular statistics which show conclusively that such talk was all false and utterly ridiculous; that the portion of the poll-tax of the county which under the constitution of the State went exclusively to the support of public schools, together with our *pro rata* proportion of the State fund, which is distributed *pro capita*, (there being a much larger number of blacks in our county than whites)—the income derived from these sources for the support of public schools would fully if not more than support them, so that they would not require for their support one dollar of direct tax upon the property of the county.

*Question.* Had you laid any tax upon the property of the county?

*Answer.* There was a tax levied in accordance with the constitution and the laws. It was levied by the board of supervisors to the amount of \$21,000 for that portion of the county outside of the city of Columbus, and \$6,000 within the city, which was a separate district. But a public meeting was held in Columbus, and there was a great deal of opposition expressed in regard to the tax and the public schools. The gist of the whole matter was opposition to free schools. A meeting was held and a committee appointed to wait on the board of supervisors. Some of the board were timid and vacillating men; and upon improper representations the board repealed the entire school-tax, and ordered the sheriff to refund the portion which had already been collected, which was about one-half or two-thirds of the tax.

*Question.* Do you mean the school-tax upon the property of the county?

*Answer.* Yes, sir.

*Question.* So that you were running your schools under the general State fund—what is known as the Chickasaw school-fund?

*Answer.* Only a portion of our county is within the Chickasaw cession. Our portion of that fund was but small, and it was pretty much squandered.

*Question.* You were running your schools upon the general school-fund and the poll-tax?

*Answer.* Yes, sir. That general fund comes from the State, and should be distributed about the 1st of June. To entitle us to our share of that fund, it was necessary that the schools should have continued four months. We intended to have the schools continued five months; but we abandoned that idea after the repeal of this tax, when we were left without funds. In fact, the repeal of that tax was simply repudiation; it amounted to nothing else in the world. The teachers have not received a dollar of pay yet.

*Question.* You ran your schools, then, so far as you did run them, from the general State school-fund?

*Answer.* Yes, sir; from that and the poll-tax.

*Question.* Did the colored people generally pay that poll-tax?

*Answer.* They are paying pretty well now. I have talked with a great many of them. I am satisfied that my acquaintance through the country is as extensive as that of any man in the county. I lived last year and for two or three years before on my plantation near Artesia, in the western part of the county—a very populous black district. The black people out there were perfectly willing to pay their poll-tax. It has been alleged as a

ground of complaint, through the county and through the country generally, that the blacks have not paid their taxes, and particularly that they have not paid their poll-tax. But I am satisfied that where they have failed to do so it has been more the fault of the sheriffs of the counties than their fault. There were several of us this time who went to the sheriff and told him that he must make an honest effort to collect the poll-tax from the people; that they were willing to pay it; and that if he did not collect it faithfully, we intended to hold him responsible. I intended to make a motion against him and his securities at the next term of the court if he did not make an honest effort and exhaust every means to collect this tax. The non-collection of this tax had been made a great cause of complaint; and we were determined that that ground of complaint should not exist, particularly when the people were willing to pay the tax. The sheriff appointed men to go into the different parts of the county; and for some weeks they have been collecting the tax readily and largely.

*Question.* From the colored people?

*Answer.* Yes, sir. In some cases the employers make arrangements to pay the tax for them and take it out of the crop. There are very few instances, so far as I have heard, where they are not entirely willing to pay. Sometimes they have not understood how it was assessed, &c.; but whenever they have understood it, they have shown their willingness to pay it; and if they did not have the means, they would try to make some shift to pay it by an arrangement with their employers or something of that kind.

*Question.* Have there been any whippings in your county in addition to what you have already mentioned?

*Answer.* Those that I have spoken of particularly were whippings in the county of Lowndes; but there is one other case which I omitted to mention. It occurred last fall, or rather last winter. There was a black man named Mason, who was killed in the southeastern part of the county in December, 1870, by a body of disguised men. He was shot in his house.

*Question.* What was the assigned cause for that act?

*Answer.* None of us have been able to trace it to any particular cause, unless it was that the negro was an influential man in his neighborhood. I heard at the time that it was probable he had had some little dispute with his employer, a young man named Holbert, about a settlement for the crop; but Mr. Holbert did not take any notice of the affair during the day or for some days after-

ward. He evidently did not attach sufficient importance to it to do anything with the negro. Two or three nights afterward these disguised men came and shot this negro. They did not kill him, but mortally wounded him; he died in the course of a day or two. There was no investigation had in regard to the matter; not even an inquest was held on him. . . .

*Question.* Did you ever hear what offense was imputed to Malone, for which he was killed?

*Answer.* There were various offenses. He was said to have been obnoxious, on account of his being a prominent man over there in that neighborhood.

*Question.* He was a colored man prominent among the colored people?

*Answer.* Yes, sir; he seemed to have been a very good man. The white people up there, after he was killed, said he was a good man and good citizen; that nobody in that county found any fault with him. Some white men that knew him personally said so. I don't remember their names now.

*Question.* Was he supposed to have been killed on account of his political influence and the way he exercised it?

*Answer.* He was supposed to have been killed for his threats to resist the visits of these clans that were riding around. He had proposed to give them a warm reception if they came around the place there. It was said that he had talked with some of the colored men around there and proposed for them to arm themselves, and if they came around there to give them a fight. That was the general rumor among the colored people. The white people that I heard talk about it said that they could not account for his being killed; that he was a good citizen, a good negro, and worked well; was industrious and attended to his own business, and had charge of a squad of men working some man's plantation. . . .

[The following is the testimony of another witness]

*Question.* They were notified that they must stop teaching?

*Answer.* Yes, sir.

*Question.* And the reason was that the people did not mean to submit to taxation for the support of those schools?

*Answer.* No, sir; the great thing was that they did not intend to have free schools. The tax was brought up as an incidental matter; but the opposition was to public schools anyhow.

*Question.* Was not the tax collected entirely from the white people?

*Answer.* That which had been collected came mostly from the white people. . . .

*Question.* It would bring the entire tax upon the white people of the county?

*Answer.* That might be so generally as to the tax upon property; but then everybody, including the blacks, pays a poll-tax of \$2.

*Question.* Has that ever been paid by the negroes?

*Answer.* It is being paid now by them; it has not been to any extent heretofore. This is the first year that the school system was ever put in operation.

*Question.* But that poll-tax never had been collected?

*Answer.* Very little of it has been collected heretofore; but I think that was the fault of the sheriffs, not of the negroes.

*Question.* Those officers were generally radicals, were they not?

*Answer.* They were republicans; I do not say that they were radicals, for some of them were pretty liberal in their views. . . .

*Question.* I understood you to testify that the teachers of these schools were mostly residents of your State?

*Answer.* Yes, sir; I am speaking now more particularly of Lowndes County.

*Question.* And that they were by no means objectionable to the people at large; that the objection was not on account of the character of the teachers?

*Answer.* No, sir; I am positive that it was not.

*Question.* There was no objection made as to the character of the teachers?

*Answer.* No, sir.

*Question.* But there was objection to the amount of tax levied to be applied for this particular purpose?

*Answer.* Yes, sir.

*Question.* And that seems to have been the root of all this disturbance in your part of the country?

*Answer.* Well, sir, I think that the majority of the people who went into these disturbances were opposed to free schools.

*Question.* They were opposed to contributing, impoverished as they had been by the war, for the education of the blacks, who have been so vauntingly called the "wards of the Government of the United States?"

*Answer.* Yes, sir; that was the main hobby in this opposition. But the very object of this circular was to show the people that that was not a true position; that it was a prejudice; that the facts did not sustain it. . . .

*Question.* How many negro voters are there in your county?

*Answer.* About four thousand five hundred negro voters and one thousand five hundred or one thousand six hundred white voters.

*Question.* If the poll-tax had been fully collected from the blacks, what would have been the amount?

*Answer.* About \$9,000.

*Question.* And you think that the \$9,000 which would have been obtained if every dollar of the poll-tax due from the negroes had been paid, would have sufficed to educate those six thousand black children?

*Answer.* No, sir; I do not say that, because their proportion of the State school fund would have amounted to fully as much as the poll-tax, if not more.

*Question.* Is not the State school fund derived from taxation?

*Answer.* No, sir; it is derived from licenses to retail whisky, from the sale of swamp lands, the sale of lands for taxes, the taxes paid by physicians and others—what is generally called the privilege tax. I think that the poll-tax paid by the colored people and their proportion of the State school fund would have supported the colored schools of the county.

*Question.* How many schools were there in your county?

*Answer.* Thirty-one white schools, and twenty-five colored.

*Question.* What salaries did you pay the teachers in the colored schools?

*Answer.* Two or three of the teachers, whose schools were very large, were paid \$80 a month; but the salary was generally \$40 or \$50 a month; and in several of the colored schools only \$25 and \$35 a month was paid. We got teachers of colored schools for one-half and even one-third of what we paid teachers of white schools. Besides, the houses used for the colored schools were very inexpensive; and we bought no school furniture for them; we took just such seats and desks as we could pick up; we fixed them up cheaply. We did not buy a dollar's worth of furniture for the colored schools in our county.

*Question.* Do you suppose that the number of colored schools you have stated would have been the extent of those schools—that they would not have been increased?

*Answer.* We were compelled to have six more schools in order to draw our *pro rata* share of the school fund. The constitution requires that so many schools shall be maintained in each sub-district of the county, in order to entitle it to its share of the school fund.

*Question.* Then you were not entitled to draw upon the State school fund?

*Answer.* We were not entitled to draw our share until we had completed our complement of schools, which has now been done. I think that this circular which I have here has demonstrated to a good many people that the poll-tax paid by the colored people, and their proportion of the "privilege tax" from the State, would have supported the colored schools. . . .

*Question.* You feel that your government in Mississippi is quite free from corruption?

*Answer.* Yes, I do. I think that the general character of the legislation of our State has been as good, all circumstances considered, as that of any State in the Union. And we have a very good state of affairs there. There are a great many people through the country who are much opposed to northern men, or what are usually termed "carpet-baggers;" but the feeling generally, I believe, is better—

*Question.* I have reference to the State government.

*Answer.* The State government, I think, is in almost all respects unexceptionable.

*Question.* You hear no particular complaint of the judiciary of your State?

*Answer.* No, sir. As I stated a while ago, our judiciary is exceedingly able.

*Question.* And for these two reasons, if for no others, you feel there is no occasion, or justification, or palliation for these Ku-Klux outrages?

*Answer.* None whatever; and I have never yet heard any charge, or pretended charge, alleged as a ground for outrages of any kind, that could not have been reached through the civil tribunals, except the Ku-Klux outrages themselves; and these, as I have stated, it is impossible to reach through the ordinary course of legal proceedings, because witnesses are afraid to swear to what they know. . . .

*Question.* The pretext given for these outrages in some States is that the pardoning power has been exercised too freely. That is not the case in Mississippi?

*Answer.* That is not the case in Mississippi. There have been fewer pardons under Governor Alcorn's administration than I remember to have been granted under any former administration.

*Question.* The pretext given for these outrages in some other localities is that the judiciary is partial, corrupt, and incompetent. Is that so in Mississippi?

*Answer.* No, sir; it is not.

*Question.* The pretext given in other localities is that there were burnings of barns and other buildings by the colored people. Has there been anything of that sort in Mississippi?

*Answer.* No, sir; nothing of the kind.

*Question.* Another pretext which has been given is that there have been rapes by colored men upon white women. Have you heard anything of that sort in Mississippi?

*Answer.* No, sir. I did hear of one instance of that kind over in Alabama—a very aggravated case; but I never heard of anything of the kind in Mississippi.

*Question.* Another pretext which has been given in some localities is that the Union Leagues have been operating in such a manner as was not exactly pleasant or proper. Have you had any Union Leagues in those counties of Mississippi to which you have referred?

*Answer.* I have never heard of the existence there of anything called a Union League. We had the "Alcorn clubs."

*Question.* I am now inquiring as to the National Union League.

*Answer.* There has never been anything done by any organization of that kind to excite hostility.

*Question.* Another pretext which has been given in certain localities is that the colored men have been in the habit of mustering with arms in their hands.

*Answer.* There is nothing of that kind in Mississippi. The militia there is just being enrolled. There have been some militia organizations, both black and white, mustered in; but they have not any guns. The governor has but few arms, and he will not let them have them.

*Question.* Another reason given for the organization of the Ku-Klux in some localities is that the militia laws were such that the governor had power to call out negro militia and not to call out white men.

*Answer.* That is not so in Mississippi, because they are all enrolled. Two militia companies have been organized in the city of Columbus and mustered into the service of the State; one company is composed of white people, and the other of blacks.

*Question.* So that none of these things which have been made the pretext elsewhere for Ku-Klux operations exist in Mississippi?

*Answer.* No, sir; not one of them.

*Question.* The pretext given in Mississippi is

that you have too many schools, and impose too much tax for their support?

*Answer.* Yes, sir; that is the pretense; but the real feeling is opposition to public schools. The fact is, the democrats want to get control of the State; that is just "the milk in the cocoa-nut." I know that last fall, after the election in Alabama, it was a common saying all through our country, "We must carry Mississippi just like Alabama has been carried;" and all of us understood how Alabama was carried.

*Question.* What was the understanding in regard to that?

*Answer.* The understanding was of course that it was carried by the Ku-Klux. Some of the counties in which the republicans had the largest majorities were carried by the democrats.

*Question.* You say that in Mississippi the effect of this organization is, as it has been testified to be in other States, to intimidate the colored people and put them in a condition of alarm and terror?

*Answer.* Yes, sir; I do say that such is the effect there.

*Question.* And you believe that the effect will be to deter the colored people from voting the republican ticket in elections?

*Answer.* Yes, sir; I believe that if about the time an election was coming on in Mississippi there were a few Ku-Klux raids it would so terrify the colored people that you could scarcely get one of them out to vote. I know this to be so, because I have seen it tried partially.

*Question.* Is it likely that men would engage in such crimes, having in view a political object, without giving some pretext or other, outside of the political bearing of their operations?

*Answer.* I suppose that of course they would not hold up to public view the prime object, because that would be at once recognized as a subversion of the principles of our Government, and would not be tolerated; it would weaken them in their own country. Hence they are compelled to assign some other pretext.

*Question.* The pretext assigned in Mississippi is that there are too many public schools, and that too much tax is imposed?

*Answer.* Yes, sir; and that in many instances men commit crimes which cannot be reached by law, which I say is not the fact.

## TRAVELERS IN THE SOUTH

AS SOON AS the Civil War was over, both the curious and those who sought to bind the wounds of war flocked to the South. From

the reports of returning travelers—none of them as famous as those who visited the South in the antebellum period or indeed the United

States a generation later, but most of them conscientious observers—we get many interesting sidelights about life and labor in the war-ravaged and war-weary region. Sherman's march had truly been devastating; the South's failure to provide popular education had isolated the section from the rest of the world; capital for internal reconstruction was lacking, so the share-cropper system was making its appearance; the Federal government's fiscal policy was hindering rather than helping the revival of the South's economic life. But by the middle of the seventies there were signs of renewed activity—based, it is true, on the virtually forced labor of the Negro. Cotton was coming back; and, in another decade, there was to emerge a period of industrial promotions by which the South was to obtain railways, forges and mills, and factories.

Sidney Andrews had been a correspondent of the *Boston Advertiser* and the *Chicago Tribune* when he visited the Carolinas and Georgia at the end of 1865. His dispatches were collected into a book and published as *The South Since the War, as Shown by 14 Weeks of Travel and Observation in Georgia and the Carolinas* (Boston, 1866); the selections used here are taken from that work. It was Andrews who pointed out the South's cultural isolation. Said he:

"Stopping for two or three days in some back country, I was always seeming to have drifted

away from the world which held Illinois and Massachusetts. The difficulty in keeping connection with our civilization did not so much lie in the fact that the whole structure of daily life is unlike ours, nor in the other fact that I was forced to hear the Union and all loyal men reviled, as in the greater fact that the people are utterly without knowledge. There is everywhere a lack of intellectual activity; while as for schools, books, newspapers, why, one may almost say there are none outside the cities and towns!

"Had schools abounded six years ago, I doubt if the masses of the South could have been forced into the war."

Edward King, a native of Connecticut, toured the South extensively during the whole of 1873 and the spring and summer of 1874. Many of his reports appeared as articles in *Scribner's Monthly* and were published in a volume called *The Great South: a Record of Journeys* (Hartford, 1875). The selections used here are from that book. King gives us the first extended contemporary account of the establishment of the share-cropper system. And he reports—quite dispassionately—the failure of Reconstruction. But the South was emerging from its ashes and Georgia was rebuilding: here King's account should be contrasted with that of Andrews, who had been to the scene of Sherman's march only a decade earlier.

## *The South Since the War*

BY SIDNEY ANDREWS

### IV: SCENES IN THE TRACK OF SHERMAN'S ARMY

Columbia, September 12, 1865.

THE WAR was a long time in reaching South Carolina, but there was vengeance in its very breath when it did come,—wrath that blasted everything it touched, and set Desolation on high as the genius of the State. "A brave people never before made such a mistake as we did," said a little woman who sat near me in the cars while coming up from Charleston; "it mortifies me now, every day I live, to think how well the Yankees fought.

We had no idea they could fight half so well." In such humiliation as hers is half the lesson of the war for South Carolina.

Columbia is in the heart of Destruction. Being outside of it, you can only get in through one of the roads built by Ruin. Being in it, you can only get out over one of the roads walled by Desolation. You go north thirty-two miles, and find the end of one railroad; southeast thirty miles, and find the end of another; south forty-five miles, and find the end of a third; southwest fifty miles, and meet a fourth; and northwest twenty-

nine miles, and find the end of still another. Sherman came in here, the papers used to say, to break up the railroad system of the seaboard States of the Confederacy. He did his work so thoroughly that half a dozen years will nothing more than begin to repair the damage, even in this regard.

The railway section of the route from Charleston lies mostly either in a pine barren or a pine swamp, though after passing Branchville we came into a more open and rolling country, with occasional signs of life. Yet we could not anywhere, after we left the immediate vicinity of the city, see much indication of either work or existence. The trim and handsome railway stations of the North, the little towns strung like beads on an iron string, are things unknown here. In the whole seventy-seven miles there are but two towns that make any impression on the mind of a stranger, —Summerville and George's,—and even these are small and unimportant places. Elsewhere we stopped, as it appeared, whenever the train-men pleased,—the "station" sometimes existing only in the consciousness of the engineer and conductor.

Branchville was, however, noticeable because of the place it once occupied in Northern anxiety. There is where Sherman was to meet his fate. Have we forgotten how the Richmond papers of early February spoke? They were not at liberty to mention the preparations, etc., but they might say, etc., and the Yankee nation would have sore cause to remember Branchville, etc. Unfortunately, however, Sherman flanked Branchville, just as he had other places of thrice its importance, and it missed the coveted renown. It is nothing but a railroad junction in a pine barren, with a long, low station-house and cotton warehouse, and three or four miserable dwellings.

I found the railroad in better condition than I supposed that I should. The rails are very much worn, but the roadbed is in fair order for nearly the entire distance. The freight-cars seemed in passably good repair; but the passenger-coaches were the most wretched I ever saw,—old, filthy, and rickety. On our train was one new feature,—a colored man and his wife, whose duty it was to wait on the passengers.

I came up from Orangeburg, forty-five miles, by "stage," to wit, an old spring-covered market-wagon, drawn by three jaded horses and driven by Sam, freedman, late slave,—of the race not able to take care of themselves, yet caring, week in and week out, for the horses and interests of his employer as faithfully and intelligently as any white man could. There were six of us passengers, and we paid ten dollars each passage-money. We left Orangeburg at four, P. M.; drove eight miles;

supped by the roadside; drove all night; lunched at sunrise by a muddy brook; and reached Columbia and breakfast at eleven, A.M., thankful that we had not broken down at midnight, and had met only two or three minor accidents. I am quite sure there are more pleasant ways of travelling than by "stage" in South Carolina at the present time. Thirty-two miles of the forty-five lie in such heavy and deep sand that no team can travel faster than at a moderate walk. For the other thirteen miles the road is something better, though even there it is the exception and not the rule to trot your mules. The river here was formerly spanned by an elegant and expensive bridge, but the foolish Rebels burned it; and the crossing of the Congaree is now effected in a ferry, the style and management of which would disgrace any backwoods settlement of the West.

The "Shermanizing process," as an ex-Rebel colonel jocosely called it, has been complete everywhere. To simply say that the people hate that officer is to put a fact in very mild terms. Butler is, in their estimation, an angel when compared to Sherman. They charge the latter with the entire work and waste of the war so far as their State is concerned,—even claim that Columbia was burned by his express orders. They pronounce his spirit "infernal," "atrocious," "cowardly," "devilish," and would unquestionably use stronger terms if they were to be had. I have been told by dozens of men that he couldn't walk up the main street of Columbia in the daytime without being shot; and three different gentlemen, residing in different parts of the State, declare that Wade Hampton expresses a purpose to shoot him at sight whenever and wherever he meets him. Whatever else the South Carolina mothers forget, they do not seem likely in this generation to forget to teach their children to hate Sherman.

Certain bent rails are the first thing one sees to indicate the advent of his army. They are at Branchville. I looked at them with curious interest. "It passes my comprehension to tell what became of our railroads," said a travelling acquaintance; "one week we had passably good roads, on which we could reach almost any part of the State, and the next week they were all gone,—not simply broken up, but gone; some of the material was burned, I know, but miles and miles of iron have actually disappeared, gone out of existence." Branchville, as I have already said, was flanked, and the army did not take it in the line of march, but some of the boys paid it a visit.

At Orangeburg there is ample proof that the army passed that way. About one third of the town was burned. I found much dispute as to



the origin of the fire, and while certain fellows of the baser sort loudly assert that it was the work of the Yankee, others of the better class express the belief that it originated with a resident who was angry at the Confederate officers. Thereabouts one finds plenty of railroad iron so bent and twisted that it can never again be used. The genius which our soldiers displayed in destroying railroads seems remarkable. How effectually they did it, when they undertook the work in earnest, no pen can make plain. "We could do something in that line, we thought," said an ex-Confederate captain, "but we were ashamed of ourselves when we saw how your men could do it."

We rode over the road where the army marched. Now and then we found solitary chimneys, but, on the whole, comparatively few houses were burned, and some of those were fired, it is believed, by persons from the Rebel army or from the neighboring locality. The fences did not escape so well, and most of the planters have had these to build during the summer. This was particularly the case near Columbia. Scarcely a tenth of that destroyed appears to have been rebuilt, and thousands of acres of land of much richness lie open as a common.

There is a great scarcity of stock of all kinds. What was left by the Rebel conscription officers was freely appropriated by Sherman's army, and the people really find considerable difficulty not less in living than in travelling. Milk, formerly an article much in use, can only be had now in limited quantities: even at the hotels we have more meals without than with it. There are more mules than horses, apparently; and the animals, whether mules or horses, are all in ill condition and give evidence of severe overwork.

Columbia was doubtless once the gem of the State. It is as regularly laid out as a checker-board,—the squares being of uniform length and breadth and the streets of uniform width. What with its broad streets, beautiful shade-trees, handsome lawns, extensive gardens, luxuriant shrubbery, and wealth of flowers, I can easily see that it must have been a delightful place of residence. No South-Carolinian with whom I have spoken hesitates an instant in declaring that it was the most beautiful city on the continent; and, as already mentioned, they charge its destruction directly to General Sherman.

It is now a wilderness of ruins. Its heart is but a mass of blackened chimneys and crumbling walls. Two thirds of the buildings in the place were burned, including, without exception, everything in the business portion. Not a store, office, or shop escaped; and for a distance of three

fourths of a mile on each of twelve streets there was not a building left. "They destroyed everything which the most infernal Yankee ingenuity could devise means to destroy," said one gentleman to me; "hands, hearts, fire, gunpowder, and behind everything the spirit of hell, were the agencies which they used." I asked him if he wasn't stating the case rather strongly; and he replied that he would make it stronger if he could. The residence portion generally escaped conflagration, though houses were burned in all sections except the extreme northeastern.

Every public building was destroyed, except the new and unfinished state-house. This is situated on the summit of tableland whereon the city is built, and commands an extensive view of the surrounding country, and must have been the first building seen by the victorious and on-marching Union army. From the summit of the ridge, on the opposite side of the river, a mile and a half away, a few shells were thrown at it, apparently by way of reminder, three or four of which struck it, without doing any particular damage. With this exception, it was unharmed, though the workshops, in which were stored many of the archives, caps, sills, &c., were burned,—the fire, of course, destroying or seriously damaging their contents. The poverty of this people is so deep that there is no probability that it can be finished, according to the original design, during this generation at least.

The ruin here is neither half so eloquent nor touching as that at Charleston. This is but the work of flame, and might have mostly been brought about in time of peace. Those ghostly and crumbling walls and those long-deserted and grass-grown streets show the prostration of a community,—such prostration as only war could bring.

I find a commendable spirit of enterprise, though, of course, it is enterprise on a small scale, and the enterprise of stern necessity. The work of clearing away the ruins is going on, not rapidly or extensively, to be sure, but something is doing, and many small houses of the cheaper sort are going up. Yet, at the best, this generation will not ever again see the beautiful city of a year ago. Old men and despondent men say it can never be rebuilt. "We shall have to give it up to the Yankees, I reckon," said one of two gentlemen conversing near me this morning. "Give it up!" said the other; "they've already moved in and taken possession without asking our leave." I guess the remark is true. I find some Northern men already here, and I hear of more who are coming.

Of course there is very little business doing

yet. The city is, as before said, in the heart of the devastated land. I judge that twenty thousand dollars would buy the whole stock of dry goods, groceries, clothing, &c. in store. The small change of the place is made in shinplasters, printed on most miserable paper, and issued by the various business men, "redeemable in United States currency when presented in sums of two dollars and upwards." "Greenbacks" and national currency notes pass without question in the city, but are looked upon with suspicion by the country people. "Having lost a great deal by one sort of paper, we propose to be careful now," they say. Occasionally one sees a State bank-note, but they pass for only from twenty-five to sixty or sixty-five cents on the dollar. There is none of the Confederate money in circulation; though I judge, from what I hear, that considerable quantities of it are hoarded up in the belief that things will somehow take such a turn as to one day give it value.

There is a certain air of easy dignity observable among the people that I have not found elsewhere in the State,—not even in Charleston itself. Something of this is probably due to the fact that the capital is located here; but more of it, probably, to the existence of Columbia College. It was before the war a very flourishing institution, but has been closed during the last three years. The old but roomy buildings are in part occupied by the military authorities, partly by the professors and officers of the college, and are partly closed. No indication is given as to the time of reopening the school. It is said by residents that the city contained some of the finest private libraries in the South; but these, with one or two exceptions, were burned.

The women who consider it essential to salvation to snub or insult Union officers and soldiers at every possible opportunity do not seem as numerous as they appeared to be in Charleston; and indeed marriages between soldiers and women of the middle class are not by any means the most uncommon things in the world; while I notice, in a quiet, unobservant manner, as even the dullest traveller may, that at least several very elegant ladies do not seem at all averse to the attentions of the gentlemen of shoulderstraps. Can these things be, and not overcome the latent fire of Rebellion?

In coming up from Charleston I learned a great many things, by conversation with persons, and by listening to conversation between people; and these are some of the more important facts thus learned.

Thus, one man insisted with much vehemence

that cotton is king, and that a resolution on the part of the South not to sell any for a year would bring the North upon its knees.

Another man was very confident that the North depends entirely upon the cotton trade for a living, and that a failure to get at least one million bales before spring will bring a tremendous financial crash.

Another gravely asserted that a state of anarchy prevails in the entire North; that the returned soldiers are plundering and butchering indiscriminately; and that there has recently been a most bloody riot in Boston.

Another, and a man of much apparent intelligence, informed me that the negroes have an organized military force in all sections of the State, and are almost certain to rise and massacre the whites about Christmas time.

Another had heard, and sincerely believed, that General Grant's brother-in-law is an Indian, and is on his staff, and that the President had issued an order permitting the General's son to marry a mulatto girl whom he found in Virginia.

A woman, evidently from the country districts, stated that there had been a rising of the negroes in Maryland; that a great many whites had been killed; and that some considerable portion of Baltimore and many of the plantations had been seized by the negroes.

And, finally, an elderly gentleman who represented himself as a cotton factor, declared that there would be a terrible civil war in the North within two years; that England would compel the repudiation of our National debt and the assumption of the Confederate debt for her guaranty of protection.

The people of the central part of the State are poor, wretchedly poor; for the war not only swept away their stock and the material resources of their plantations, but also all values,—all money, stocks, and bonds,—and generally left nothing that can be sold for money but cotton, and only a small proportion of the landholders have any of that. Therefore there is for most of them nothing but the beginning anew of life, on the strictest personal economy and a small amount of money borrowed in the city. It would be a benefit of hundred of millions of dollars if the North could be made to practise half the economy which poverty forces upon this people.

They are full of ignorance and prejudices, but they want peace and quiet, and seem not badly disposed toward the general government. Individuals there are who rant and rave and feed on fire as in the old days, but another war is a thing beyond the possibilities of time. So far as any fear

of that is concerned we may treat this State as we please,—hold it as a conquered province or restore it at once to full communion in the sisterhood of States. The war spirit is gone, and no fury can re-enliven it.

The spirit of oppression still exists, however, and military authority cannot be withdrawn till the relation between employer and employed is put upon a better basis. On the one hand, the

negro in the country districts must be made to understand, what he has already been taught in the city, that freedom does not mean idleness. On the other hand, the late master should specially be made to understand that the spirit of slavery must go to the grave with the thing itself. It will not be an easy work to teach either class its chief lesson. We must have patience,—patience, and faith that neither faints nor falters.

## *The Great South*

BY EDWARD KING

### XXVIII: THE "SUPPLY" SYSTEM IN THE COTTON COUNTRY . . .

AT MEMPHIS I heard much concerning the miseries and revelations of both capitalists and laborers in the cotton country. It is easy to see that the old planters are in trouble under the new order of things. They are not willing to become farmers. "These people will never," said to me a gentleman familiar with the whole cotton-planting interest, "grow their own supplies until they are compelled to." They choose to depend upon the West for the coarse food supplied to negro laborers, and seem totally unconscious of the fact that they can never secure white immigration, so much desired, until they raise the status of the laboring man. White labor has proved a failure in a great many sections of the South, because the laborers who come to make trial are not properly met. They are offered strong inducements—can purchase good lands on almost unlimited credit, and are kindly received—but they find all the conditions of labor so repulsive that they become disheartened; and give up the experiment. The negro along the Mississippi works better than ever before since freedom came to him, because he is obliged to toil or starve, and because, being the main stay of the planters, they accord to him very favorable conditions. Self-interest is teaching the planters a good deal, and in the cotton-growing regions of Northern Alabama and Mississippi, as well as generally throughout the older cotton States, a diversity of crops will in time force itself upon them as a measure of protection.

It is noticed that cotton culture is gradually moving from the Atlantic seaboard to newer and more productive lands. The States west of the Mississippi, and bordering on that stream, are receiving immense colonies of negroes fleeing from the temporarily exhausted sections of Alabama, and the lands which they have left will soon come

under the influence of fertilizers, and corn and rice and wheat will be raised. In consequence of the gradual change in the location of the planting interest, buyers from the North in such markets as Memphis hear from time to time that less cotton is planted than heretofore, and are led to figure on higher prices; but they find that new lands are constantly opened up, and that the yield on them is surprising. It is the belief of many acute observers living at important points along the Mississippi river that the ultimate home of the black man is to be west of that stream, on the rich bottom lands where the white man has never been known to labor, and where it would be perilous to his health to settle. In the fall and winter of each year the migration to Arkansas and Louisiana is alarming to the white planters left behind. In Western Tennessee the exodus has not been severely felt as yet, but it will doubtless come. The two hundred thousand negroes in that rich and flourishing region are reasonably content. They do not, in the various counties, enter so much into politics as they did immediately after the war. They show there, as, indeed, almost everywhere in the Mississippi valley, a tendency to get into communities by themselves, and seem to have no desire to force their way into the company of the white man.

There must, and will be, a radical change in the conduct of the rising generation of planters. The younger men are, I think, convinced that it is a mistake to depend on Western and Northern markets for the articles of daily consumption, and for nearly everything which goes to make life tolerable. But the elders, grounded by a lifetime of habit in the methods which served them well under a slave régime, but which are ruinous now-a-days, will never change their course. They will continue to bewail the unfortunate fate to which they think themselves condemned—or will rest in the assurance that they can do very well in the

present chaotic condition of things, provided Providence does not allow their crops to fail. They cannot be brought to see that their only safety lies in making cotton their surplus crop; that they must absolutely dig their sustenance, as well as their riches, out of the ground.

Before the war, a planter who owned a plantation of two thousand acres, and two hundred negroes upon it, would, when he came to make his January settlement with his merchant in town, invest whatever there was to his credit in more land and more negroes. Now the more land he buys the worse he is off, because he finds it very hard to get it worked up to the old standard, and unless he does, he can ill afford to buy supplies from the outer world at the heavy prices charged for them—or if he can do that, he can accomplish little else. As most of his capital was taken from him by the series of events which liberated his slaves, he has been compelled, since the war, to undertake his planting operations on borrowed capital, or, in other words, has relied on a merchant or middle-man to furnish food and clothing for his laborers, and all the means necessary to get his crop, baled and weighed, to the market. The failure of his crop would, of course, cover him with liabilities; but such has been his fatal persistence in this false system that he has been able to struggle through, as in Alabama, three successive crop failures.

The merchant, somewhat reconciled to the anomalous condition of affairs by the large profits he can make on coarse goods brought long distances, has himself pushed endurance and courage to an extreme point, and when he dare give credit no longer, hosts of planters are often placed in the most painful and embarrassing positions. So they gather up the wrecks of their fortunes, pack their Lares and Penates in an emigrant wagon or car, and doggedly work their way to Texas.

The appalling failure of crops in certain sections has not, however, lessened the cotton production of the region supplied from Memphis. In the aggregate it is greater than ever before, and I was informed that its increase would be even more than it is if so many planters did not "over-crop"—that is, plant more than they can cultivate. Those who plant a little land, and care for it thoroughly, usually make some money, even although they depend upon far-off markets for their sustenance, and are completely at the mercy of the merchants. It is believed that the crop failures will induce planters, in the sections which have suffered, to make an effort to grow their own supplies, and until that effort has been successful, there can be no real prosperity among them.

Even when fortune smiles, and they make a good crop, but little is left after a settlement with the merchant. Life is somewhat barren and unattractive to the man who, after a laborious season spent in cultivating one staple, finds that, after all, he has only made a living out of it. He has done nothing to make his surroundings agreeable and comfortable; his buildings are unsightly and rickety, and there are very few stores in his cellar, if indeed he has any cellar at all.

The region which finds its market and gets its supplies in Memphis, Vicksburg, and Natchez, is probably as fair a sample of the cotton-producing portion of the South as any other, and I found in it all the ills and all the advantages complained of or claimed elsewhere. Imagine a farming country which depends absolutely for its food on the West and North-west; where every barrel of flour which the farmer buys, the bacon which he seems to prefer to the beef and mutton which he might raise on his own lands, the clothes on his back, the shoes on his feet, the very vegetables which the poorest laborer in the Northern agricultural regions grows in his door-yard—everything, in fact,—has been brought hundreds of miles by steamer or by rail, and has passed through the hands of the shipper, the carrier, the wharfmen, the reshipper (if the planter live in a remote section), and the local merchant!

Imagine a people possessed of superior facilities, who might live, as the vulgar saying has it, on the fat of the land, who are yet so dependent that a worm crawling over a few cotton leaves, or the rise of one or two streams, may reduce them to misery and indebtedness from which it will take years to recover! Men who consider themselves poorly paid and badly treated in Northern farming and manufacturing regions live better and have more than do the overseers of huge plantations in this cotton country. If you enter into conversation with people who fare thus poorly, they will tell you that, if they raise vegetables, the "niggers" will steal them; that if times were not so hard, and seasons were not so disastrous, the supply system would work very well; that they cannot organize their labor so as to secure a basis on which to calculate safely; and will finally end by declaring that the South is ruined forever.

These are the opinions of the elders mainly. Younger men, who see the necessity of change and new organization, believe that they must in future cultivate other crops besides cotton; that they must do away with supply-merchants, and try at least to raise what is needed for sustenance. There are, of course, sections where the planter finds it cheapest to obtain his corn and flour from

St. Louis; but these are small items. There are a hundred things which he requires, and which are grown as well South as North. Until the South has got capital enough together to localize manufactures, the same thing must be said of all manufactured articles; but why should a needless expenditure be encouraged by the very people whom it injures and endangers?

There are many plans of working large plantations now in vogue, and sometimes the various systems are all in operation on the same tract. The plan of "shares" prevails extensively, the planter taking out the expenses of the crop, and, when it is sold, dividing the net proceeds with the negroes who have produced it. In some cases in the vicinity of Natchez, land is leased to the freedmen on condition that they shall pay so many bales of cotton for the use of so many acres, furnishing their own supplies. Other planters lease the land in the same way, and agree to furnish the supplies also. Still others depend entirely upon the wages system, but of course have to furnish supplies at the outset, deducting the cost from the wages paid hands after the crop is raised. Sometimes the plantation is leased to "squads," as they are called, and the "squad leader" negotiates the advances, giving "liens" on the squad's share of the crop and on the mules and horses they may own. This plan has worked very well and is looked upon favorably.

Under the slave *régime*, the negroes working a large plantation were all quartered at night in a kind of central group of huts, known as the "quarters;" but it has been found an excellent idea to divide up the hundred or five hundred laborers among a number of these little villages, each located on the section of the plantation which they have leased. By this process, commonly known as "segregation of quarters," many desirable results have been accomplished; the negro has been encouraged to devote some attention to his home, and been hindered from the vices engendered by excessive crowding. On some plantations one may find a dozen squads, each working on a different plan, the planters, or land owners, hoping in this way to find out which system will be most advantageous to themselves and most binding on the negro.

Clairmont, a plantation of three thousand acres, of which one thousand are now cultivated, on the Louisiana side of the Mississippi river, opposite to Natchez, is cut up into lots of one hundred acres each, and on each division are ten laborers who have leased the land in various ways. It was amusing, by the way, to note the calculation that one negro made when negotiating for

one of these tracts. He was to be allowed one-half, but was vociferous for one-tenth. As ten is more than two, he supposed a tenth to be more than a half. On this Clairmont, in 1860, the owner raised 1,000 bales of cotton and 8,000 bushels of corn; now he raises about 500 bales, and hardly any corn.

Still, the conduct of the laborers is encouraging. The little villages springing up here and there on the broad acres have a tendency to localize the negroes, who have heretofore been very much inclined to rove about, and each man is allowed to have half an acre of ground for his garden. The supplies spoken of as furnished the negroes are of the rudest description—pork, meal and molasses—all brought hundreds, nay, thousands of miles, when every one of the laborers could, with a little care, grow enough to feed himself and his family.

But the negro throughout the cotton belt takes little thought for the morrow. He works lazily, although, in some places, pretty steadily. In others he takes a day here and there out of the week in such a manner as to render him almost useless. The planter always feels that the negro is irresponsible and must be taken care of. If he settles on a small tract of land of his own, as so many thousand do now-a-days, he becomes almost a cumberer of the ground, caring for nothing save to get a living, and raising only a bale of cotton or so wherewith to get "supplies." For the rest he can fish and hunt. He doesn't care to become a scientific farmer. Thrift has no charms for him. He has never been educated to care for himself; how should he suddenly leap forth, a new man, into the changed order of things?

Nevertheless, some of the planters along the river near Natchez said, "Give the negro his due. The merchant will ordinarily stand a better chance of collecting all his advance from fifty small black planters than from fifty whites of the same class, when the crop is successful." But if the negro's crop fails, he feels very loth to pay up, although he may have the means. He seems to think the debt has become outlawed. In success he is generally certain to pay his "store account," which is varied, and comprehends a history of his progress during the year. . . .

Some of the elder planters are liberal in their ideas, and would welcome a complete change in the labor system, but they do not believe one possible. One of the best known and influential in the valley told me that he and his neighbors in the magnificent Yazoo country, where the superb fertility of the soil gives encouragement even to the rudest labors, had tried every expedi-

ent to bring new labor into their section, but could not succeed. His laborers were now practically his tenants; but he had to supply them and to watch over them, very much as he did before the war. He was willing to admit that the negro was better adapted to the work than any white man who might come there; but thought the younger generation of negroes was growing up idle and shiftless, fond of whiskey and carousing, and that the race was diminishing in fibre and strength. Those who had been slaves were industrious, and conducted themselves as well as they knew how; but the others, both men and women, seemed to think that liberty meant license, and acted accordingly. They were wasteful, and there was but little chance of making them a frugal and foresighted farming people. Whenever they could secure a little money the ground in front of their cabins would be strewn with sardine boxes and whiskey bottles.

The planters in the lowlands of Arkansas, Mississippi, and Louisiana have been particularly troubled to get and keep serviceable plantation labor; and are now importing large numbers from Alabama. In truth, the hundreds who flock in from the older cotton States were starving at home. On a plantation in Concordia parish, in Louisiana, opposite Natchez, there are many of these Alabama negroes. One planter went into the interior of that State, and engaged a hundred and twenty-five to follow him. They did not succeed in leaving without meeting with remonstrances from the colored politicians, but were glad to flee from an empty cupboard. . . .

In a trip of perhaps ten miles I passed through several once prosperous plantations, and made special inquiries as to their present condition. Upon one where six hundred bales of cotton were annually produced under slave culture, the average annual yield is now but two hundred and fifty; on another the yearly average had fallen from one thousand to three hundred bales; and on two others which together gave the market fifteen hundred bales every year, now barely six hundred are raised. The planters in this section thought that cotton production had fallen off fully two-thirds. The number of negroes at work on each of these plantations was generally much less than before the war. Then a bale to the acre was realized, now about one bale to three acres is the average. Much of this land is "leased" to the negro at the rate of a bale of cotton weighing four hundred and thirty pounds for each six acres.

The planters there raise a little corn, but are mainly supplied from the West. The inundation was upon them at the epoch of my visit, and they

were in momentary expectation of seeing all their year's hopes destroyed. The infamous robberies, also, to which they had been subjected by the Legislature, and the overwhelming taxation, had left them bitterly discouraged. One plantation which I visited, having sixteen hundred acres of cleared land in it, and standing in one of the most fertile sections of the State, was originally valued at one hundred dollars per acre; now it could not be sold for ten dollars. In Madison parish recently a plantation of six hundred improved acres, which originally cost thirty thousand dollars, was offered to a neighboring planter for *seven hundred dollars*.

The "wages" accorded the negro, when he works on the wages system, amount to fifteen or sixteen dollars monthly. But few ever save any money; and this remark will, I think, apply to the majority of the negroes engaged in agriculture throughout the cotton region of the Mississippi valley. Still there are praiseworthy exceptions to this general rule. Enormous prices are placed upon everything, because of the cost of transportation. The grangers have accomplished some good in the cotton States by buying for cash and selling for cash, the object being to keep supplies as near the wholesale price as possible, and have already become a formidable organization there, having scores of societies, small and large, in Alabama, Georgia, Tennessee, and Mississippi.

While there is no doubt that an active, moneyed, and earnest immigration would do much toward building up the southern portion of the Mississippi valley, it is evident that so long as the negro remains in his present ignorance, and both he and the planter rely on other States for their sustenance, and on Providence never to send them rainy days, inundations, or caterpillars, the development of the section will be subject to too serious drawbacks to allow of any considerable progress. All the expedients, the tenant systems, and years of accidental success will not take the place of thorough and diversified culture, and intelligent, contented labor resulting from fair wages for fair work. Nothing but the education of the negro up to the point of ambition, foresight, and a desire to acquire a competence lawfully and laboriously, will ever thoroughly develop the Lower Mississippi valley. As the negro is certainly to inhabit it for many years at least, if not forever, how shall he learn the much-needed lesson?

On the other hand, the whites need to be converted to a sense of the dignity of labor, to learn to treat the laboring man with proper consideration, to create in him an intelligent ambition by

giving him education. Something besides an introduction to political liberties and responsibilities is needed to make the negro a moral and worthy citizen. He is struggling slowly and not very surely out of a lax and barbarously immoral condition. The weight of nearly two centuries of slavery is upon his back. He needs more help and counsel. An old master will tell you that he can discover who of his employes has been a slave, "for the slave," he says, "cannot look you in the eye without flinching." . . .

#### XXXVII: ATLANTA . . .

From the ashes of the great penitential conflagration in which the exigencies of war enveloped Atlanta, from the ruins of the thousand dwellings, factories, workshops, and railroad establishments totally destroyed in the blaze of 1864, has sprung up a new, vigorous, awkwardly alert city, very similar in character to the mammoth groupings of brick and stone in the Northwest. There is but little that is distinctively Southern in Atlanta; it is the antithesis of Savannah. There is nothing that reminds one of the North in the deliciously embowered chief city of Georgia, surrounded with its romantic moss-hung oaks, its rich lowlands, and its luxuriant gardens, where the magnolia, the bay, and the palmetto vie with one another in the exquisite inexplicable charm of their voluptuous beauty. Atlanta has an unfinished air; its business and residence streets are scattered along a range of pretty hills; but it is eminently modern and unromantic. The Western and Atlantic railway unites it with Chattanooga, running through a country which was scourged in bitterest fashion by the war; the Georgia railroad connects it with Augusta; the Macon and Western with handsome and thriving Macon; the Atlanta and West Point road to the town of West Point, Alabama, gives a continuous line to Montgomery; and the new Piedmont Air Line, which has opened up the whole of Northern Georgia, gives it new and speedy communication with the North via Charlotte, in North Carolina. Great numbers of Northern people have flocked to Atlanta to live since the time when General Pope's will was law, and when the Bullock administration was just arising out of the chaos of the constitutional convention. The removal of the State capital from Milledgeville to Atlanta also gave the renaissance city a good start, and the wonderful manner in which it drew trade and capital to it from all sides made it the envy of its sister Georgian cities.

A brief review of the progress of politics in the State since Atlanta became its capital will aid in

arriving at an understanding of the present social and political condition of the commonwealth.

When the reconstruction policy of the General Government began, a large number of the citizens of Georgia declared for it, and among them was Mr. Bullock, subsequently Governor of the State. In the political campaign which ensued, the opposite faction, which totally repudiated the reconstruction acts, condescended to much proscription and denunciation, and numbers of Union men were driven from the State. It was out of this campaign that the Ku-Klux conspiracy, as manifested in Georgia, is supposed to have grown. Prominent Republicans received lugubrious letters containing pictures of coffins, and acts of violence were not wanting. Native Georgians, who were leading Republican officials, were hunted down and assassinated; Republican meetings were dispersed, not without slaughter; and it was manifest from the outset that there was to be a decided upsetting of the attempt to enforce the policy inaugurated by the war. But the Republican party was organized, and its Legislature, in which there were many negroes, went into session.

The first trouble that occurred was due to a discussion of the question whether or not men who had held office previous to the war, and then had taken part in the rebellion, were eligible for the Legislature. The debate upon this matter was heated and angry, and the final decision was in favor of extreme liberality toward all who had fought on the Confederate side. Many of these were admitted to the State councils, and after a time, getting control of the middle-men, they had the Legislature in their hands. Their first act was to oust all the colored members—some thirty-six—and to proceed on the basis that a white man's government was the only one for Georgia. The expulsion of the negroes was corrected by act of Congress; and in 1869 the colored element was readmitted to the Legislature. After this, Bullock, who was the first Governor chosen under the operation of the reconstruction laws, had full sway for about two years. Some good laws were passed during that time, but the railroad legislation was the occasion of veritable disaster to the progress of reconstruction in Georgia. Bullock was in due time compelled to depart from the State, to save himself from imprisonment; and the Democratic party, completely triumphant, now and then announces its convictions through the medium of Robert Toombs, who has been its leader, and, in some measure, its exponent for many years. It is not long since this gentleman, in a speech made at Atlanta in favor of a convention to revise the constitution, of the State, made use



of the following language: "Why, look at that miserable thing you call a constitution! It commits you to all the lies of the revolution against you. It says your allegiance is first due to the Federal Government before it is due to your own State? Do you believe that? When you can wrench that from the constitution, do it!"

Under the administration of Governor Bullock, a system of internal improvement was inaugurated, theoretically granting State aid to nascent railroads in the proportion in which the companies building those roads aided themselves. But bonds were over-issued, and were negotiated by prominent bankers in New York city. The Brunswick and Albany railroad was the principal project. About \$6,000,000 worth of bonds were actually issued during the two years, all of which went to the Brunswick and Albany railroad, with the exception of \$600,000 granted to the Cartersville and Van West road. The party now in power has repudiated all the railroad bonds issued under Bullock's *régime*. The New York bankers have not suffered very much by this, but the repudiation will give the credit of the State a severe blow. . . .

The State railroad, running from Atlanta northward to Chattanooga, had been leased under Bullock's administration. The Democrats, who now came into power, charged that the Governor was guilty of gross official misconduct in leasing the road, although it was done in obedience to an act of the Legislature, and they proceeded to prosecute every one who had been connected with the management of it under the Bullock *régime*. They based their charge against the Governor upon the theory that he was personally and pecuniarily interested in the road, . . . This, however, the Governor expressly denies, showing that the road, which, for the twenty years from its building up to 1868, had been an expense to the State, and a fruitful source of political corruption, was made profitable under the lease system. The prosecutions by the Democratic party were characterized by a great deal of acerbity, and in one case the Supreme Court decided that much injustice was inflicted upon a prosecuted party. The Democratic Legislative Committee appointed to investigate the official conduct of the late Governor was in session seven months, and confined its final report mainly to denunciations of the Governor's course . . . They took complete control of the State Government, gloried in the repudiation of the various bonds issued from 1869 to 1871, and maintained that the reconstruction acts of Congress were "unconstitutional, revolutionary, null, and void."

Certainly reconstruction is null and void in Georgia. It has been a complete failure there. That there have been instances of glaring injustice practiced on both sides no fair-minded man can for an instant doubt. The Republican administration lasted scarcely three years; and the legitimate results of the war were not maintained so long as that after 1868. Out of the 90,000 colored voters in the State, scarcely 30,000 vote to-day; free schools are almost unknown outside the large cities and towns; and there has not been a Republican inspector of election since the Democrats assumed power. To judge from the testimony of native Georgians who are Republicans, and who have never been suspected of any dishonesty or untruth, the negroes are very grossly intimidated; and the Ku-Klux faction still exists as a kind of invisible empire. This is naturally to be expected after the occurrences in Louisiana, South Carolina, and Alabama; it is the revulsion from tyrannical ignorance and carpet-baggery; and may prove as baneful in its results as has its degraded and disreputable opposite. The Democrat of Georgia talks with all the more emphasis of a white man's government in his commonwealth, because he feels that there is a black man's government in a neighboring State; if he has ever had any exaggerated fears as to a too free assumption of civil rights by his ex-slave, those fears are accented ten-fold since he has seen the real injustice practiced by negroes where they have attained supreme, unrestricted power. . . .

But few traces of the war are now left in Atlanta. The residence streets have a smart, new air; many fine houses have been recently built, and their Northern architecture and trim gardens afford a pleasant surprise after the tumble-down, unpainted towns of which one sees so many in the South. The banks, the theatres, the public business blocks, the immense Kimball House, all have the same canny air—seem to be boasting of their tidy looks and prosperity to the countrymen who come into town to market. I strolled into the Capitol. In the office of the State Treasurer I encountered some gentlemen who seemed inclined to believe that the State would not suffer if all debts contracted under the Bullock *régime* were repudiated. One said that he could not inform me how much the State debt, as construed by the reconstructionists, was; he reckoned no one knew; the scoundrels who had contracted the debt had run away; if they could lay hands on Bullock they would put him in the penitentiary. I found, everywhere I went in the Capitol, a spirit of extreme bitterness prevailing against the departed carpet-

baggery; and all complained that the State affairs had been left in a wretched condition.

The attempt to establish free common schools throughout Georgia has thus far resulted in failure. Prior to the war there was but little effort made for the education of the masses. A small sum was appropriated as the "indigent school fund," but the majority of the poorer classes in the back-country remained in dense ignorance. In the present State School Commissioner's office I was informed that there had been no common school open outside the large cities for some time. It was alleged that the school fund had been diverted to unlawful purposes during the "previous administration," and that the State had been much embarrassed by a debt of \$300,000, incurred in prematurely putting schools into operation. There seems no doubt of a sincere desire on the part of the Georgia Conservatives to maintain free schools; and it is, by the way, noteworthy that three of the Southern States that are Conservative in politics are leading all the others in education. Local taxation is the principal bugbear. The farmer dislikes to be taxed for schools; he still has various absurd prejudices; thinks the common school a pauper institution, and gets angry if there is any talk of compulsory education. The school population of the State is about 370,000, and the annual school revenue, derived from interest on bonds, from the poll tax, from taxes on shows, and from dividends on railroad stock, amounts to \$280,000. This is, of course, ridiculously small, and, now that Georgia has arrived once more at some degree of material prosperity, will, doubtless, be increased, and amends will be made for the shameful negligence which allowed the whole school machinery to stop and rust for a year. A

praiseworthy but fruitless effort has recently been made in the Legislature to follow in the steps of Tennessee, by favoring local taxation, a limit to the amount of which is to be fixed, to guard against the creation of excessive taxes by negro votes; and the Peabody fund is employed in aiding the proselyters who preach the cause of common school education in the back counties. The illiteracy in Georgia previous to 1860 was alarming; the most moderate estimates showed that eighteen per cent. of the adult native white population could not even read; and, in 1860, when the State had a scholastic population of 236,454, only 94,687 attended school. Prejudice is strong, but the free school will establish itself in Georgia, as everywhere South, in due time. I think that the mass of Georgians respect an educated negro, but are determined to make him do the work of educating himself. The negro needs a good general education, mainly because it will strengthen his character, and make him more independent. He is at present very easily intimidated with regard to his voting, and readily falls into corrupt practices in election time, because he does not consider the evil effects of such a course.

The manufactures of Atlanta are not extensive; there are some large rolling-mills, and a good deal of iron is brought down from the country to the northward, and worked over there. Of course there is a large cotton movement through the town; and, in the late autumn, a journey along the railroad to Chattanooga discloses hundreds of teams toiling over the rough roads, bringing goodly stores of cotton bales to the stations. Journalism in Atlanta is vivacious and enterprising, and the *New Era* and the *Herald* are newspapers of metropolitan dimensions. . . .

# THE UNITED STATES AND THE WORLD

## *EUROPEAN INTERVENTION AND THE CIVIL WAR*

THE AMERICAN CIVIL WAR curtailed Europe's supply of cotton. Though that did not trouble English manufacturers until the war was half over, and though profits in blockade-running and the manufacture of small arms helped retrieve the loss for England, the federal blockade of Southern ports did interfere with European commerce. Economic pressure for intervention was reinforced by the desire to lessen the threat that a powerful democracy posed to a Europe which had not forgotten the revolutionary movements of 1848.

For Napoleon III, that motive was particularly strong: his throne had become increasingly shaky and it was doubtful whether it could survive the effects of many more winters like that of 1861-62, when a short harvest accentuated the misery of widespread unemployment in France. The French Imperialist press clamored for mediation, accordingly, and the Confederate envoy, John Slidell (1793-1871) found his mission pleasanter than that of his colleague in England. Slidell, who had been rescued from his Union captors as a result of British protest, reached France in the early part of 1862; there he helped build the Confederate fleet and negotiated a loan for his government. He finally gained an audience with Napoleon in July. Slidell's reports of this interview and a later one illuminate the problems forced upon the Union's diplomacy in the first black years of the Civil War. The reports were brought to the American consul-general at Paris, John Bigelow (1817-1911), a free-soil Democrat, writer, and humanitarian. Bigelow's European friendships made him a par-

ticularly effective counterespionage and propaganda agent for the Union. He encouraged a favorable Continental press, maintained a private spy service, watched Confederate agents in France, and, according to his version, prevented French intervention on the Confederates' behalf.

In November, 1862, when Slidell and his charming wife were in particular favor with the Empress, Napoleon addressed England and Russia in identic notes suggesting joint intervention for the purpose of winning a six months' armistice in the American war. During that armistice, the Union would suspend its blockade and the warring sections proceed to negotiations.

England repulsed Napoleon's overtures, thus repairing, at French expense, some of the breaks in the fabric of Anglo-American relations, and Napoleon decided against pushing the proposal on his own account. He continued to support the pro-Confederate party in Britain, however, and the report of an audience with him makes up a large part of J. A. Roebuck's speech of June 30, 1863. In this speech, the member from Sheffield urges England to recognize the Confederacy and so forestall France in the struggle for a new power's favor. The war was not being fought to end slavery, but to preserve the Union, a cause opposed to England's national interest, Roebuck argued. Maintenance of the unity of the United States would not improve the Negro's position, since the blacks were cordially hated in the North. Failure to recognize the independence of the Confederacy was bringing misery to Lanca-

shire's operatives with no compensating benefit to the nation.

The government defeated Roebuck's motion in the debate which followed. Gettysburg and Vicksburg, together with shipments of cotton from recaptured New Orleans, made the Union cause appear a better risk. Thereafter, no English party made recognition of the Confederacy a point in its policy and Napoleon's

pro-Confederate attitude was tempered by the necessities of his Mexican adventure.

The Slidell reports are printed in John Bigelow's *Retrospections of an Active Life* (5 vols., New York, 1909) and are reprinted here by permission of Doubleday and Company, Inc. Roebuck's speech is reprinted from *Hansard's Parliamentary Debates*, Series 3, v. clxxi, 3d vol. of session (London, 1864).

### *Slidell's First Audience with Napoleon*

SLIDELL TO J. P. BENJAMIN

Paris, 25th July, 1862.

Sir:

. . . On Thursday, the 10th inst., we received the first intelligence of the battles of the 26 and 27 of June and the "strategical movements" of McClellan across the Chickahominy and towards James River. On the strength of these news and of your despatch No. 3 (which with numbers 1, 2 and 4 had been delivered by Mr. de Leon), I was about to call on Count de Persigny, when I received a message from that gentleman, who had recently returned after an absence of some weeks in England, saying that he desired to see me. I of course lost no time in complying with his request. I communicated to him confidentially the substance of my new instructions and he advised me to proceed to Vichy where the Emperor would be on Saturday, but he thought would be much occupied for a day or two in receiving the authorities, etc. The Count gave me a very warm letter to General Fleury, who is a great favorite of the Emperor and constantly accompanies him, urging him to procure an audience for me. I went accordingly to Vichy on Tuesday, arriving there in the evening. The next morning I sent a note to General Fleury enclosing that of M. de Persigny soliciting his good offices to procure me "*une audience officieuse*" with the Emperor. I very soon received a reply saying that the Emperor would receive me at 2 o'clock.

You will find herewith full details of my interview marked No. 1. . . .

No. 1

On Wednesday morning, 16th July, at 9 o'clock, I enclosed to General Fleury, Aide de camp and Premier Écuyer of the Emperor, a letter from Count de Persigny, and asked him to procure me the honor of an official audience with

the Emperor. Before 12 o'clock I received from M. Fleury a note stating that the Emperor would receive me at 2 o'clock. The Emperor received me with great kindness and after saying that he was very happy to see me and regretted that circumstances had prevented his sooner doing so, invited me to be seated. He commenced the conversation by referring to the news contained in the evening papers of the previous day of the defeat of the Federal armies before Richmond, which appeared to give him much satisfaction. He spoke of Lincoln's call for three hundred thousand additional troops as evidence of his conviction of the desperate character of the struggle in which he had been engaged and of the great losses which the Federal forces had sustained. That although it was unquestionably for the interest of France, that the United States should be a powerful and united people to act as a "contrepoids" to the maritime power of England, yet his sympathies had always been with the South, whose people are struggling for the principle of self-government, of which he was a firm and consistent advocate, that he had from the first seen the true character of the contest and considered the re-establishment of the Union impossible and final separation a mere question of time. That the difficulty was to find the way to give effect to his sympathies, that he had always desired to preserve the most friendly relations with England and that in so grave a matter he had not been willing to act without her co-operation, that he had several times intimated his wish for action in our behalf, but had met with no favorable response, and that besides, England had a deeper interest in the question than France; that she wished him "to draw the chestnuts from the fire for her benefit." He asked me to give my views of the state of affairs and of what could be done to bring the war to a close. The conversation had thus far been in French with occasional remarks

from me; but as I knew that the Emperor spoke English well and fluently and was said not to dislike having an opportunity to converse in our language I said that if it would not be disagreeable to him, I would prefer speaking English, as I could better express myself in my own tongue. He assented and during the remainder of the interview the conversation was in English. He enquired the amount of our army. I estimated the number of men now under arms at about 350,000, although at certain previous periods, before we had abandoned the impossible idea of defending all the points of our immense coast and frontier, the number had probably been nearer 500,000; but since we had adopted the policy of concentrating our forces, 350,000 men were, I thought, as many as we could advantageously employ. That our difficulty was not to find men, of them we had and always would have more than enough, but that what we wanted were arms, powder and clothing. I explained the composition and character of our army, that with us every man was a soldier, that very many of the élite of our country were serving in the ranks; spoke of the devotion and enthusiasm of our women; that our men were badly clothed and fed, most of them with inferior arms and all insufficiently and irregularly paid, but submitted patiently to all the privations. That on the contrary our enemies were admirably equipped and armed, as a general rule profusely fed, having many luxuries in abundance, such as tea and coffee of which our troops were entirely deprived; but that the very large majority were mercenaries, who served for pay and food, not being able to find employment and wages. The Emperor expressed his great surprise at our troops not having coffee, which he said was considered essential to the health of the soldiers. That probably one half of the privates were foreigners, principally Germans and Irish, while our troops were almost exclusively born on our soil. That this difference made them much more than a match for their enemies when they met with equal numbers, but that this advantage was more than compensated by the greater moral value of those whom we lost, carrying mourning into every Southern family, while no interest was felt at the North for the mercenaries who were fighting their battles, so long as they could supply their places by new levies. . . .

This gave me an opportunity of saying about Mexican affairs substantially that as the Lincoln Government was the ally and protector of his enemy Juarez, we could have no objection to make common cause with him against the common enemy.

I asked him if he had seen Count de Persigny since his return from England, or if the Count (to whom I had confidentially communicated the substance of your despatch No. 3) had written to him about our affairs. He said that he had neither seen nor heard from the Count. I then stated to the Emperor what I had been instructed to propose. It did not seem disagreeable. He said, how am I to get the cotton? I replied, that of course depends on your Majesty; he will soon have a fleet in the neighborhood of our coast, strong enough to keep it clear of every Federal cruiser. . . .

I gave him in a few words a description of the American marine; some second class steamers constructed for war purposes and a large number of merchant vessels hastily purchased and fitted up for the blockade and transport service. I said that the *Gloire*, the *Garonne* or the *Normandie* could pass the fortifications of New York and Boston and hold those towns at their mercy, or could enter the Chesapeake, destroy all the vessels there and Fortress Monroe by bombardment.

He agreed with me in this. I expressed my regret at having heard that some of his first class steamers were armed *en flute* and asked if this armament could not be completed at Martinique and Guadeloupe, and suggested that if not, guns could be sent there for the purpose. He appeared to be pleased with the suggestion. . . .

He then spoke of recognition, saying that simple recognition would be of no value, and as to mediation that would be refused by the North. I replied that as to mediation, I agreed with him, that if offered, it would be refused by the North but would be accepted by us, but that such refusal and acceptance would be of vast advantage to our cause and enlist the sympathies of the civilized world in our favor and afford sufficient reason for more potent intervention. But we did not ask for mediation, all we asked for was recognition, that there was a large majority in the Northern States in favor of peace and separation, but that a reign of terror existed which for the present stifled all expression of such opinions, that the Congressional elections were approaching and that recognition would give the peace party courage to organize and perhaps place them in the majority. He said that he was pleased to see that there had been a great peace meeting in New York. I said that recognition would at once bring out many similar demonstrations. I then said that although we did not place ourselves on that ground, the interests of humanity might be urged as calling on Europe and especially on him who exercised so potent an influence over the destinies of the world to put

an end to the strife, which was not only devastating the South and exhausting the North but paralyzed the industry and commerce of Europe. He replied, what you say is true, but the policy of nations is controlled by their interests and not by their sentiments, and ought to be so. I replied, that I fully admitted his proposition, but that the interests to be consulted should not be those of the hour, that England seemed to have abdicated the great part which she had been accustomed to play in the affairs of the world, and adopted a tortuous, selfish and time serving policy, which had only served to make all nations either her bitter enemies or at least fair weather friends. That we, at first, had been well disposed towards England, but that having for selfish ulterior purposes, to revive for her advantage the old exploded principles of a blockade, and to secure the monopoly of cotton for her Indian colonies, given a false interpretation to the Treaty of Paris, we should never hereafter consider her our friend. The Emperor remarked, I have already told you what I thought of the blockade, and as to the culture of cotton in India supplanting yours, I consider the idea entirely chimerical. If you do not give it to us we can not find it elsewhere. I then said, your Majesty has now an opportunity of securing a faithful ally, bound to you not only by the ties of gratitude, but by those more reliable of a common interest and congenial habits. He said, yes, you have many families of French descent in Louisiana who yet preserve their habits and language. I replied that he was right, and that I could give him an instance in my own family where French was habitually spoken. He asked me whether we anticipated no difficulty from our slaves. I replied that they had never been more quiet and more respectful and that no better evidence could be given of their being contented and happy. This was the only allusion made to slavery during the interview.

The Emperor asked me if I expected that England would agree to co-operate with him in our recognition. I replied that he of course must have much better means of information than I, but that our friends in England were more hopeful than they ever had been before, and that our Commissioner at London, for the first time since his arrival, wrote encouragingly. That the motion of Mr. Lindsay recommending recognition would be brought up on Friday, and that probably the debate would bring out Lord Palmerston with a declaration of his purposes. He asked how Cobden was disposed. I said that he was unfriendly to us, but not so much so as Bright. That it was conceded on all hands that an immense majority of

the House of Commons was in our favor, but that Lord Derby was not prepared to take office, and nothing would be done that would cause Lord Palmerston to resign.

While I was advocating recognition, the Emperor, with a very significant smile, said, it is very singular that while you ask absolute recognition, Mr. Dayton is calling upon me to retract my qualified recognition of you as belligerents. I replied, that such a demand was but another evidence of the insolence of the Washington Government.

The Emperor asked me, if France and England intervene, on what terms can a peace be made? The question of boundaries is a most difficult one, what will you do with the border States? You will not be willing to accept what the North, even if she submits to separation, will accord. I replied that the question appeared indeed to be difficult but it seemed to be susceptible of an easy solution and one which we would willingly receive. In all the States where the people had in full conventions voted for separation, there could be no difficulty, that in Kentucky, Missouri and Maryland, the question whether they would join our confederacy, form a separate one for themselves or remain with the United States should be submitted to the popular vote and that I had no fear of the result, that such had been the Emperor's policy in Italy and the whole world approved of it. That the Chesapeake, Potomac and Ohio were natural and indispensable boundaries which could not be relinquished. He regretted he had no map at Vichy that we might trace the line.

I should have mentioned that when speaking of the cotton subsidy, I told the Emperor that the proposition was made exclusively to France, my colleague at London not being aware of my authority to make it. . . .

I said to the Emperor that in deciding upon the course he was to pursue, he might assume two fixed points of departure. *First*, that reconstruction on any terms was impossible. *Second*, that without European intervention in some form or other, peace was impossible within any reasonable period; that a peace must be preceded by an armistice, with our ports open to the commerce of the world.

I omitted to mention that in speaking of Mexican affairs, I said that Mr. Lincoln had sent to the Senate the treaty negotiated by Mr. Corwin, that this was in fact a subsidy of eleven millions of dollars to enable Juarez to carry on the war against France; he replied, but the Senate will not ratify it; of this, I said, I had no means to form an opinion, but at any rate it was clear that the Presi-

dent approved of its principle and the Executive virtually controlled the Foreign relations. I said that I had heard from what seemed to be good authority, although I did not pretend to vouch for the truth of the Report, that Schufeldt, U.S. Consul General at Havana, had gone to Mexico and placed at the disposition of Juarez two millions of dollars, being the cash installment stipulated by the Treaty, and if this were so, the Mexican army was now waging war against France with means furnished by the Federal treasury. I also alluded to the presence of the Orléans Princes in the Federal armies as evidence at least that Lincoln was not particularly desirous to avoid giving just cause of offense to France, and mentioned that the son of the Prince de Joinville was now serving as a midshipman on board of a Federal man-of-war, a fact of which he had been previously ignorant.

I suggested that without violating neutrality we might be allowed to communicate with our government by French ships of war visiting our ports; that such communication was called for even by French interests; that it was important that Southern newspapers should be freely received to neutralize the false statements of the Northern Press. The Emperor replied that such a request seemed reasonable and that he would consider it.

Finding that the Interview had been sufficiently prolonged, I rose to take leave, saying that I had

already too much abused his indulgence; that I had perhaps omitted to present some arguments which if not new to him, were from a different point of view, but that I had prepared a formal demand of recognition in which they were embodied, and that I intended to present them to M. Thouvenel, as soon as he should return from England, where he then was, and I would feel much obliged, if he saw any reason to object to the course I proposed, that he would intimate his wish. He said that he saw no objection to my presenting my demand, *he of course said nothing to compromit himself as to the answer that would be given*. At parting he said that he hoped in future there would be less difficulty in my seeing him than had heretofore existed.

On the whole my interview was most satisfactory. I had been led to expect from what I had heard of his habitual manner that he would be extremely reserved, confining himself to asking questions, or intimating on what points he wished me to speak, with occasional brief observations on his part; on the contrary he was frank, unreserved, I might perhaps say cordial; placing me entirely at my ease by the freedom with which he spoke himself. Although *he said nothing to commit himself as to his future course* I left him with the decided impression that if England long persevered in obstinate inaction he would take the responsibility of moving by himself. . . .

### *Slidell's Second Audience with Napoleon*

SLIDELL TO J. P. BENJAMIN

MEMORANDUM OF AN INTERVIEW WITH THE EMPEROR AT THE TUILERIES, THURSDAY,  
18TH JUNE, 1863

ON WEDNESDAY I received from the Duke de Bassano, First Chamberlain, a note informing me that the Emperor would receive me at the Tuileries on the following day at ten o'clock. The Emperor received me with great cordiality. He said that he had read the memorandum presented to him by the Count de Persigny (copy of which accompanied my despatch No. 37); that he was more fully convinced than ever of the propriety of the general recognition by European powers of the Confederate States, but that the commerce of France and the success of the Mexican expedition would be jeopardized by a rupture with the United States; that no other power than England possessed a sufficient Navy to give him efficient aid in a war on the ocean, an event which indeed could not be anticipated, if England would co-operate with him in recognition.

I replied that I was well satisfied that recognition by France and any other continental powers, or even by France alone, would not lead to a war with the United States, as they already found ample occupation for all their energies at home; that he could count on the coöperation of Spain, Austria, Prussia, Belgium, Holland, Sweden and Denmark. He remarked that none of those powers possessed a Navy of any consequence. I suggested that Spain had a very respectable Navy and was daily increasing it. I adverted to the instructions in your despatch No. 16, of the 9th May, and said that I was authorized to give the adhesion of my government to the tripartite treaty for the guarantee of Cuba to Spain; that I thought it was probable that such an adhesion might induce Spain, if assured in advance of the concurrence of France, to take the initiative of our recognition. Would the Emperor be willing to give such an assurance? He said that he would. I asked, will the Emperor authorize me to say so to the Spanish Ambassador, M. Isturitz, to whom I had already communicated the substance of my instructions. He replied that



he was willing that I should do so. I then spoke to the Emperor of a letter from Mr. Roebuck, of which I asked his permission to read some extracts. He assented. I asked him if I might be permitted to deny on his authority the correctness of the rumor of which Mr. Seymour Fitzgerald had spoken to Mr. Roebuck. He said that I might give it an unqualified denial.

I then inquired if it would be agreeable to him to see Messrs. Roebuck and Lindsay, and if I might so inform them. He said that he would be pleased to converse with them on the subject of Mr. Roebuck's motion, and that I might write to that effect. He, however, after a little reflection added: "I think that I can do something better: make a direct proposition to England for joint recognition. This will effectually prevent Lord Palmerston from misrepresenting my position and wishes on the American question." He said, "I shall bring the question before the Cabinet Meeting to-day, and if it should be decided not to make the proposition now, I will let you know in a day or two through M. Mocquard what to say to Mr. Roebuck."

I then said, "It may perhaps be an indiscretion to ask whether your Majesty prefers to see the Whigs or Tories in power in England," and he said, "I rather prefer the Whigs." I remarked that Lord Malmesbury would under a conservative administration probably be the Secretary for Foreign Affairs, and that I had always understood that intimate relations existed between the Emperor and him. He said, "That is true; personally we are excellent friends, but personal relations have very little influence in great affairs where party interests are involved." He playfully remarked, "The Tories are very good friends of mine when in a minority, but their tone changes very much when they get into power."

He then spoke of the different spirit in which the news of the fall of Puebla had been received

North and South: that the Northern papers showed their disappointment and hostility, while Richmond had been illuminated on the occasion. This is reported by the newspapers. I, of course, did not express any doubt of the fact, although I considered it somewhat apocryphal. I said that there could be no doubt of the bitterness of the Northern people at the success of his arms in Mexico, while all our sympathies were with France, and urged the importance of securing the lasting gratitude and attachment of a people already so well disposed; that there could be no doubt that our Confederacy was to be the strongest power of the American Continent, and that our alliance was worth cultivating. He said that he was quite convinced of the fact and spoke with great admiration of the bravery of our troops, the skill of our generals and the devotion of our people. He expressed his great regret at the death of Stonewall Jackson, whom he considered as one of the most remarkable men of the age.

I expressed my thanks to him for his sanction of the contract made for the building of four ships of war at Bordeaux and Nantes. I then informed him that we were prepared to build several ironclad ships of war and that I only required his verbal assurance that they should be allowed to proceed to sea under the Confederate flag to enter into contracts for that purpose. He said that we might build the ships, but it would be necessary that their destination should be concealed. I replied that the permission to build, equip and proceed to sea would be no violation of neutrality, and invoked the precedent of a ship built for the Chilean government under the circumstances mentioned in my despatch No. 32, of 20th April. The Emperor remarked that there was a distinction to be drawn between that case and what I desired to do. Chili was a government recognized by France.

### *Roebuck's Audience with Napoleon*

... BUT THE SOUTH never will come into the Union, and—what is more—I hope it never may. I will tell you why I say so. America, while she was one, ran a race of prosperity unparalleled in the world. Eighty years made the Republic such a Power, that if she had continued as she was a few years longer, she would have been the great bully of the world. Why, Sir, she

“—bestrode the narrow world,  
Like a Colossus; and we petty men  
Walked under her huge legs, and peeped about  
To find ourselves dishonourable graves.”

As far as my influence goes, I am determined to do all I can to prevent the re-construction of the Union, and I hope that the balance of Power on the American continent will, in future, prevent any one State from tyrannizing over the world as the Republic did. Could anything be more insulting than her conduct towards us? Yet we who turned upon Greece—we who bullied Brazil—we crawled upon our bellies to the United States. They could not treat us contemptuously enough to raise our ire; but at last, when the secession took place, we plucked up courage, and resented

the outrage upon the *Trent*. I say, then, that the Southern States have vindicated their right to recognition. They hold out to us advantages such as the world has never seen before. I hold, besides, that it would be of the greatest importance that the re-construction of the Union should not take place. Then comes the question—has the time arrived for recognition? I want hon. Gentlemen to tell me why the time has not arrived. At the present moment, a large portion of our population are suffering in consequence of the cotton famine. That is one reason why the time has come for the recognition of the South. Next, I say the time has come, because the Southern States have vindicated their right to be recognised. Moreover, they offer to us a boon such as the world has never known, but they are being driven to be a manufacturing people. They are making their own guns; and if you keep them much longer in their present condition, they will produce their own cotton and woollen goods. Thus interests will grow up which they will be obliged to protect, and we shall have the protective system introduced into the Southern States of America. That is a matter deserving of attention—a matter which any statesman, if I could see one, would take into his consideration. Such is the state of things at the present moment. The South offers to us perfect free trade; but if we allow this contest to go on—if we cower, as we have done hitherto, before the North, the Southerners will soon become a manufacturing population, and the boon will be withdrawn from us. But, if they ought to be recognised, and if the time has come, is the mode I propose a right one? The mode I propose is, that this House should pray the Queen to enter into communication with the great Powers of Europe with a view to the recognition of the South. Now, the great Powers of Europe really mean France. No other Power, with the exception of Russia, has a fleet that we need think about; and we know that Russia is not at present in a position to do anything. France is the only Power we have to consider; and France and England acknowledging the South, there would be an end of the war. Here I am obliged to enter into a sort of personal history. I hope the House will excuse me for doing so. What I am going to say is, that I know certain things about the state of the mind of the great French ruler which I am authorized, that is, I am permitted to lay before this House. I was met in the lobby outside some days since by an hon. and learned Friend of mine, who said to me, "You propose that the House should address the Queen, to ask her to enter into a negotiation with the great Powers of Europe. Now, I have heard to-day, on

very good authority, that the mind of the French ruler has changed; and if Lord Palmerston can come down to the House and say so, 'what becomes of your Motion for the recognition of the South?' I acknowledged to my hon. and learned Friend the force of his statement, though, like the Scotchman about the fish, I doubted the fact; therefore I wrote to my hon. Friend the Member for Sunderland, knowing that he had obtained authority to write to the French Emperor whenever he wanted to see him, and I said to him in effect, "Suppose, for the purpose of ascertaining whether this rumour be true, we go across and ask at once for an audience." For, Sir, I know the Treasury bench right well. I know they are wonderfully expert at circulating rumours; indeed, when they have an object in view, there is hardly any rumour they will not circulate. My letter to the hon. Member for Sunderland got to Paris, and subsequently we had the audience asked for. I am now going to make a statement which the Under Secretary for Foreign Affairs may think somewhat surprising, but it is true for all that. The Emperor of the French said, and he gave me authority to repeat it here, "As soon as I learnt that that rumour was circulating in England, I gave instructions to my Ambassador to deny the truth of it. Nay more, I instructed him to say that my feeling was not, indeed, exactly the same as it was, because it was stronger than ever in favour of recognising the South. I told him also to lay before the British Government my understanding and my wishes on this question, and to ask them again whether they would be willing to join me in that recognition." Now, Sir, there is no mistake about this matter. I pledge my veracity that the Emperor of the French told me that. He told me that instructions had been sent to Baron Gros. And to tell me that the British Government does not know that that has occurred must mean some evasion, some diplomatic evasion. It cannot be the truth. And if there be contradiction between the witnesses, I pledge my veracity for what I state. I do not believe the world will doubt my word, and I pledge my word that that is the truth as far as I am concerned. And—what is more—I laid before His Majesty two courses of conduct. I said, "Your Majesty may make a formal application to England." He stopped me and said, "No; I can't do that, and I will tell you why. Some months ago I did make a formal application to England. England sent my despatch to America. That despatch getting into Mr. Seward's hands, was shown to my Ambassador at Washington. It came back to me; and I felt that I was ill-treated

by such conduct. I won't," he added—"I can't subject myself again to the danger of similar treatment. But I will do every thing short of it. I give you full liberty to state to the English House of Commons this my wish, and to say to them that I have determined in all things"—and I will quote his words—"I have determined in all things to act with England; and more particularly I have determined to act with her as regards America." Well, Sir, with this before us, can the

Government be ignorant of this fact? I do not believe it. With this before them, are they not prepared to act in concert with France? Are they afraid of war? War with whom? With the Northern States of America? Why, in ten days, Sir, we should sweep from the sea their every ship. ["Oh, oh!"] Yes, there are people so imbued with Northern feeling as to be indignant at that assertion. But the truth is known. Why, the *Warrior* would destroy their whole fleet. . . .

## NAPOLEON AND MEXICO

IN 1862, JAMES MONROE's fears turned into fact: a military expedition representing France, Spain, and England landed at Vera Cruz and, as a result, a "European system" was established in this hemisphere.

Behind that action lay years of discord in Mexico, where reactionary elements had hoped to retrieve the humiliation of defeat in the war with the United States by securing European support for a Mexican monarchy. By 1858, the reactionaries held power at Mexico City and civil conflict raged through the country. The United States recognized the government of President Juarez the following year and our minister negotiated a treaty giving Mexico a loan of \$4,000,000 in return for right of way across the Isthmus of Tehuantepec and a general police power over the country. Though the United States Senate refused to ratify it, the treaty provoked considerable uneasiness in Europe, especially among those French investors who had become increasingly involved in defaulted Mexican bonds.

Juarez then proceeded to repudiate a good part of the Mexican debt on grounds of fraud. In reprisal, the Powers agreed on joint intervention to protect the interests of their nationals. When England, France, and Spain invited the United States to become a party to the London Convention of 1861, the invitation was declined. Intervention proceeded, none the less, but the Powers quarreled soon after their first military success and Spain and Britain withdrew in April, 1862.

Thereafter, intervention in Mexico was a

Napoleonic adventure. Attempts to reach an agreement with Juarez were thwarted by the summoning of a reactionary Assembly of Notables, which declared for a monarchy and offered the Mexican throne to Archduke Maximilian, brother of the Austrian Emperor. Mexico's new sovereign arrived in May, 1864, a month after the signing of the Convention of Miramon. This agreement bound Mexico to pay the cost of the French intervention and to assign French creditors a large share of the proceeds of a new loan. Maximilian was crowned Emperor, and Juarez continued fighting in the mountains.

The United States did not recognize the new monarchy. It temporized for a few months; and then, with the Union victorious and Grant now in command of almost a million troops, Seward addressed to the French minister a note which veiled a real threat behind its polite observations on the form of government suitable to a New World people. Yet, even at this point, the American Secretary of State did not invoke the Monroe Doctrine.

Though none of Seward's notes on the French intervention referred to the statement of President Monroe, the failure of Napoleon III vindicated the Monroe Doctrine as a principle of American foreign policy. Seward had begun by attempting to block the 1862 intervention with an offer to have the United States pay 3 percent interest on the Mexican foreign debt for the next five years—in return for a lien on public lands and mineral rights in Lower California, Chihuahua, Sonora, and

Sinaloa. When the European powers declined and proceeded to send their troops, Seward issued a circular letter declaring that the United States was concerned lest foreign intervention impair the right of the Mexican people to choose their own form of government. Less publicly, Seward backed Minister Corwin's project for a \$9,000,000 loan to Juarez; but the Senate rejected the treaty.

American public opinion, guided by Romero, Juarez's minister in Washington, grew increasingly hostile to French intervention. By 1864, H. Winter Davis, the Maryland Radical Republican, was embarrassing the administration by offering a resolution opposing the monarchy in Mexico. Chase and Frémont denounced Napoleon and appealed to the Monroe Doctrine. Finally, in 1864, the Republican platform of that year put the administration on record: it was opposed to Maximilian.

By 1865, Union victory seemed certain enough to make such pronouncements more than empty threats, and Seward's notes took a sharper tone. In August, he protested the French encouragement given the California adventurer, William Gwin, who planned to raise a Confederate legion to fight for Maximilian against Juarez. A reply hinting that France would be willing to withdraw its army if the United States would recognize the Mexican monarchy—and if Mexico would guarantee payment of her debt—evoked Seward's letter

of November, 1865. The French intervention had been wrong from its inception, Seward declared, and as the United States was maintaining diplomatic relations with the government freely chosen by the Mexican people, it had no need to recognize Maximilian.

Seward continued the war of nerves: he appointed General Logan minister to Juarez and sent General Schofield on an indefinite "mission" to Paris. Napoleon was cracking under the strain: he indicated his willingness to withdraw French troops, but once again asked for recognition for Maximilian. In his reply, Seward repeated the assertion that Maximilian had not been the free choice of the Mexican people and that withdrawal of French troops did not commit the United States to any alteration in its policy of neutrality in Mexican civil conflicts.

The month of April, 1866, marks Napoleon's recognition of defeat, for it was then that the time of French evacuation was fixed. Presumably, Maximilian was given ample opportunity to consolidate his position, but this desperate stratagem failed. With French troops withdrawn, the reactionary forces behind the throne were unable to suppress the Juarez guerillas, and Maximilian was captured and executed in June, 1867.

Seward's note is reprinted from *House Executive Document* No. 1, Pt. 3, 39th Congress, 1st Session (Washington, 1866).

### *Diplomatic Correspondence*

BY WILLIAM H. SEWARD

MR. SEWARD TO THE MARQUIS DE MONTHOLON

DEPARTMENT OF STATE,  
Washington, February 12, 1866

SIR: On the 6th of December I had the honor to submit to you in writing, for the information of the Emperor, a communication upon the subject of affairs in Mexico, as affected by the presence of French armed forces in that country. On the 29th of January thereafter you favored me with a reply to that communication, which reply had been transmitted to you by Mr. Drouyn de Lhuys,

under the date of the 9th of the same month. I have submitted it to the President of the United States. It is now made my duty to revert to the interesting question which has thus been brought under discussion.

In the first place I take notice of the points which are made by Mr. Drouyn de Lhuys.

He declares that the French expedition into Mexico had in it nothing hostile to the institutions of the New World, and still less of anything hostile to the United States. As proofs of this friendly statement, he refers to the aid in blood and treas-

ture which France contributed in our revolutionary war to the cause of our national independence; to the preliminary proposition that France made to us that we should join her in her expedition to Mexico; and, finally, to the neutrality which France has practiced in the painful civil war through which we have just successfully passed. It gives me pleasure to acknowledge that the assurances thus given on the present occasion that the French expedition, in its original design, had no political objects or motives, harmonize entirely with expressions which abound in the earlier correspondence of the minister of foreign affairs, which arose out of the war between France and Mexico.

We accept with especial pleasure the reminiscences of our traditional friendship.

Mr. Drouyn de Lhuys next assures us that the French government is disposed to hasten, as much as possible, the recall of its troops from Mexico. We hail the announcement as being a virtual promise of relief to this government from the apprehensions and anxieties which were the burden of that communication of mine, which Mr. Drouyn de Lhuys has had under consideration.

Mr. Drouyn de Lhuys proceeds to declare that the only aim of France, in pursuing her enterprise in Mexico, has been to follow up the satisfaction to which she had a right after having resorted to coercive measures, when measures of every other form had been exhausted. Mr. Drouyn de Lhuys says that it is known how many and legitimate were the claims of French subjects which caused the resort to arms. He then reminds us how, on a former occasion, the United States had waged war on Mexico. On this point it seems equally necessary and proper to say, that the war thus referred to was not made nor sought by the United States, but was accepted by them under provocations of a very grave character. The transaction is past, and the necessity and justice of the proceedings of the United States are questions which now rest only within the province of history. France, I think, will acknowledge, that neither in the beginning of our Mexican war nor in its prosecution, nor in the terms on which we retired from that successful contest, did the United States assume any position inconsistent with the principles which are now maintained by us in regard to the French expedition in Mexico.

We are, as we have been, in relations of amity and friendship equally with France and with Mexico, and therefore we cannot, consistently with those relations, constitute ourselves a judge of the original merits of the war which is waged between them. We can speak concerning that war

only so far as we are affected by its bearing upon ourselves and upon republican and American institutions on this continent.

Mr. Drouyn de Lhuys declares that the French army, in entering Mexico, did not carry monarchical traditions in the folds of its flag. In this connexion he refers to the fact that there were at the time of the expedition a number of influential men in Mexico who despaired of obtaining order out of the conditions of the republican rule then existing there, and who, therefore, cherished the idea of falling back upon monarchy. In this connexion, we are further reminded that one of the later presidents of Mexico offered to use his power for the re-establishment of royalty. We are further informed that at the time of the French invasion the persons before referred to deemed the moment to have arrived for making an appeal to the people of Mexico in favor of monarchy. Mr. Drouyn de Lhuys remarks that the French government did not deem it a duty to discourage that supreme effort of a powerful party, which had its origin long anterior to the French expedition.

Mr. Drouyn de Lhuys observes that the Emperor, faithful to maxims of public right, which he holds in common with the United States, declared on that occasion that the question of change of institutions rested solely on the suffrages of the Mexican people. In support of this statement, Mr. Drouyn de Lhuys gives us a copy of a letter which the Emperor addressed to the commander-in-chief of the French expedition, on the capture of Puebla, which letter contained the following words: "Our object, you know, is not to impose on the Mexicans a government against their will, nor to make our success aid the triumph of any party whatsoever. I desire that Mexico may rise to a new life, and that soon, regenerated by a government founded on the national will, on principles of order and of progress, and of respect for the law of nations, she may acknowledge by her friendly relations that she owes to France her repose and her prosperity."

Mr. Drouyn de Lhuys pursues his argument by saying that the Mexican people have spoken; that the Emperor Maximilian has been called by the voice of the country; that his government has appeared to the Emperor of the French to be of a nature adequate to restore peace to the nation, and, on its part, peace to international relations, and that he has therefore given it his support. Mr. Drouyn de Lhuys thereupon presents the following as a true statement of the present case: France went to Mexico to exercise the right of war, which is exercised by the United States, and not in virtue

of any purpose of intervention, concerning which she recognizes the same doctrine with the United States. France went there not to bring about a monarchical proselytism, but to obtain reparations and guarantees which she ought to claim; and, being there, she now sustains the government which is founded on the consent of the people, because she expects from that government the just satisfaction of her wrongs, as well as the securities indispensable to the future. As she does not seek the satisfaction of an exclusive interest, nor the realization of any ambitious schemes, so she now wishes to recall what remains in Mexico of the army corps which France has sent there at the moment when she will be able to do so with safety to French citizens and with due respect for herself.

I am aware how delicate the discussion is to which Mr. Drouyn de Lhuys thus invites me. France is entitled, by every consideration of respect and friendship, to interpret for herself the objects of the expedition, and of the whole of her proceedings in Mexico. Her explanation of those motives and objects is, therefore, accepted on our part with the consideration and confidence which we expect for explanations of our own when assigned to France or any other friendly power. Nevertheless, it is my duty to insist that, whatever were the intentions, purposes, and objects of France, the proceedings which were adopted by a class of Mexicans for subverting the republican government there, and for availing themselves of French intervention to establish on its ruins an imperial monarchy, are regarded by the United States as having been taken without the authority, and prosecuted against the will and opinions, of the Mexican people. For these reasons it seems to this government that, in supporting institutions thus established in derogation of the inalienable rights of the people of Mexico, the original purposes and objects of the French expedition, though they have not been, as a military demand of satisfaction, abandoned, nor lost out of view by the Emperor of the French, were, nevertheless, left to fall into a condition in which they seem to have become subordinate to a political revolution, which certainly would not have occurred if France had not forcibly intervened, and which, judging from the genius and character of the Mexican people, would not now be maintained by them if that armed intervention should cease. The United States have not seen any satisfactory evidence that the people of Mexico have spoken, and have called into being or accepted the so-called empire which it is insisted has been set up in their capital. The United States, as I have re-

marked on other occasions, are of opinion that such an acceptance could not have been freely procured or lawfully taken at any time in the presence of the French army of invasion. The withdrawal of the French forces is deemed necessary to allow such a proceeding to be taken by Mexico. Of course the Emperor of France is entitled to determine the aspect in which the Mexican situation ought to be regarded by him. Nevertheless, the view which I have thus presented is the one which this nation has accepted. It therefore recognizes, and must continue to recognize, in Mexico only the ancient republic, and it can in no case consent to involve itself, either directly or indirectly, in relation with or recognition of the institution of the Prince Maximilian in Mexico.

This position is held, I believe, without one dissenting voice by our countrymen. I do not presume to say that this opinion of the American people is accepted or will be adopted generally by other foreign powers, or by the public opinion of mankind. The Emperor is quite competent to form a judgment upon this important point for himself. I cannot, however, properly exclude the observation that, while this question affects by its bearings, incidentally, every republican state in the American hemisphere, every one of those states has adopted the judgment which, on the behalf of the United States, is herein expressed. Under these circumstances it has happened, either rightfully or wrongfully, that the presence of European armies in Mexico, maintaining a European prince with imperial attributes, without her consent and against her will, is deemed a source of apprehension and danger, not alone to the United States, but also to all the independent and sovereign republican States founded on the American continent and its adjacent islands. France is acquainted with the relations of the United States towards the other American States to which I have referred, and is aware of the sense that the American people entertain in regard to the obligations and duties due from them to those other States. We are thus brought back to the single question which formed the subject of my communication of the 6th of December last, namely, the desirableness of an adjustment of a question the continuance of which must be necessarily prejudicial to the harmony and friendship which have hitherto always existed between the United States and France.

This government does not undertake to say how the claims of indemnity and satisfaction, for which the war which France is waging in Mexico was originally instituted, shall now be adjusted, in discontinuing what, in its progress, has become a

war of political intervention dangerous to the United States and to republican institutions in the American hemisphere. Recognizing France and the republic of Mexico as belligerents engaged in war, we leave all questions concerning those claims and indemnities to them. The United States rest content with submitting to France the exigencies of an embarrassing situation in Mexico, and expressing the hope that France may find some manner which shall at once be consistent with her interest and honor, and with the principles and interest of the United States, to relieve that situation without injurious delay. . . .

I do not think it would be profitable, and therefore I am not desirous to engage in the discussions which Mr. Drouyn de Lhuys has thus raised. It will be sufficient for my purpose, on the present occasion, to assert and to give reassurance of our desire to facilitate the withdrawal of the French troops from Mexico, and, for that purpose, to do whatsoever shall be compatible with the positions we have heretofore taken upon that subject, and with our just regard to the sovereign rights of the republic of Mexico. Further or otherwise than this France could not expect us to go. Having thus reassured France, it seems necessary to state anew the position of this government, as it was set forth in my letter of the 6th of December, as follows: Republican and domestic institutions on this continent are deemed most congenial with and most beneficial to the United States. Where the people of any country, like Brazil now, or Mexico in 1822, have voluntarily established and acquiesced in monarchical institutions of their own choice, free from all foreign control or intervention, the United States do not refuse to maintain relations with such governments, or seek through propagandism, by force or intrigue, to overthrow those institutions. On the contrary, where a nation has established institutions republican and domestic, similar to our own, the United States assert in their behalf that no foreign nation can rightfully intervene by force to subvert republican institutions and establish those of an antagonistical character. . . .

On the other hand, it is neither a right of the United States, nor consistent with their friendly disposition towards Mexico, to reproach the people of that country with her past calamities, much less to invoke or approve of the infliction of punishment upon them by strangers for their political errors. The Mexican population have, and their situation has, some peculiarities which are doubtless well understood by France. Early in the present century they were forced, by convictions which mankind cannot but respect, to

cast off a foreign monarchical rule which they deemed incompatible with their welfare and aggrandizement. They were forced, at the same time, by convictions which the world must respect, to attempt the establishment of republican institutions, without the full experience and practical education and habits which would render those institutions all at once firm and satisfactory. Mexico was a theatre of conflict between European commercial, ecclesiastical, and political institutions and dogmas, and novel American institutions and ideas. She had African slavery, colonial restrictions, and ecclesiastical monopolies. In the chief one of these particulars she had a misfortune which was shared by the United States, while the latter were happily exempted from the other misfortunes. We cannot forget that Mexico, sooner and more readily than the United States, abolished slavery. We cannot deny that all the anarchy in Mexico, of which Mr. Drouyn de Lhuys complains, was necessarily, and even wisely, endured in the attempts to lay sure foundations of broad republican liberty.

I do not know whether France can rightfully be expected to concur in this view, which alleviates, in our mind, the errors, misfortunes, and calamities of Mexico. However this may be, we fall back upon the principal that no foreign state can rightly intervene in such trials as those of Mexico, and on the ground of a desire to correct those errors, deprive the people there of their natural right of domestic and republican freedom. All the injuries and wrongs which Mexico can have committed against any other state have found a severe punishment in consequences which legitimately followed their commission. Nations are not authorized to correct each other's errors except so far as is necessary to prevent or redress injuries affecting themselves. If one state has a right to intervene in any other state, to establish discipline, constituting itself a judge of the occasion, then every state has the same right to intervene in the affairs of every other nation, being itself alone the arbiter, both in regard to the time and the occasion. The principle of intervention, thus practically carried out, would seem to render all sovereignty and independence, and even all international peace and amity, uncertain and fallacious. . . .

Mr. Drouyn de Lhuys then arranges, in a graphic manner, the advantages that have arisen, or are to arise, to the United States, from the successful establishment of the supposed empire in Mexico. Instead of a country unceasingly in trouble, and which has given us so many subjects of complaint, and against which we ourselves



have been obliged to make war, he shows us in Mexico a pacific country, under a beneficent imperial sway, offering henceforth measures of security and vast openings to our commerce, a country far from injuring our rights and hurting our influences. And he assures us that, above all other nations, the United States are most likely to profit by the work which is being accomplished by Prince Maximilian in Mexico. These suggestions are as natural on the part of France as they are friendly to the United States. The United States are not insensible to the desirableness of political and commercial reform in the adjoining country; but their settled principles, habits, and convictions forbid them to look for such changes in this hemisphere to foreign, royal, or imperial institutions, founded upon a forcible subversion of republican institutions. The United States, in their customary sobriety, regard no beneficial results which could come from such a change in Mexico as sufficient to overbalance the injury which they must directly suffer by the overthrow of the republican government in Mexico.

Mr. Drouyn de Lhuys at the end of his very elaborate and able review, recapitulates his exposition in the following words: "The United States acknowledge the right we had to make war in Mexico. On the other part, we admit, as they do, the principle of non-intervention. This double postulate includes, as it seems to me, the elements of an agreement. The right to make war, which belongs, as Mr. Seward declares, to every sovereign nation, implies the right to secure the results of war. We have not gone across the ocean merely for the purpose of showing our power, and of inflicting chastisement on the Mexican government. After a train of fruitless remonstrances, it was our duty to demand guarantees against the recurrence of violence from which our country had suffered so cruelly, and those guarantees we could not look for from a government whose bad faith we had proved on so many occasions. We find them now engaged in the establishment of a regular government, which shows itself disposed to honestly keep its engagements. In this relation we hope that the legitimate object of our expedition will soon be reached, and we are striving to make with the emperor Maximilian arrangements which, by satisfying our interests and our honor, will permit us to consider at an end the service of the army upon Mexican soil. The Emperor has given an order to write in this same sense to our minister at Mexico. We fall back at that moment on the principle of non-intervention, and from that moment accept it as the rule of our conduct. Our interest, no less

than our honor, commands us to claim from all the uniform application of it. Trusting the spirit of equity which animates the cabinet of Washington, we expect from it the assurance that the American people will themselves conform to the law which they invoke, by observing, in regard to Mexico, a strict neutrality. When you [meaning the Marquis de Montholon] shall have informed me of the resolution of the federal government, I shall be able to indicate to you the nature of the results of our negotiation with the emperor Maximilian for the return of our troops."

I have already, and not without much reluctance, made the comments upon the arguments of Mr. Drouyn de Lhuys which seem to be necessary to guard against the inference of concurrence in questionable positions which might be drawn from our entire silence. I think that I can, therefore, afford to leave his recapitulation of those arguments without such an especial review as would necessarily be prolix, and perhaps hypercritical. The United States have not claimed, and they do not claim, to know what arrangements the Emperor may make for the adjustment of claims for indemnity and redress in Mexico. It would be, on our part, an act of intervention to take cognizance of them. We adhere to our position that the war in question has become a political war between France and the republic of Mexico, injurious and dangerous to the United States and to the republican cause, and we ask only that in that aspect and character it may be brought to an end. It would be illiberal on the part of the United States to suppose that, in desiring or pursuing preliminary arrangements, the Emperor contemplates the establishment in Mexico, before withdrawing his forces, of the very institutions which constitute the material ground of the exceptions taken against his intervention by the United States. It would be still more illiberal to suppose for a moment that he expects the United States to bind themselves indirectly to acquiesce in or support the obnoxious institutions.

On the contrary, we understand him as announcing to us his immediate purpose to bring to an end the service of his armies in Mexico, to withdraw them, and in good faith to fall back, without stipulation or condition on our part, upon the principle of non-intervention upon which he is henceforth agreed with the United States. We cannot understand his appeal to us for an assurance that we ourselves will abide by our own principles of non-intervention in any other sense than as the expression, in a friendly way, of his expectation that when the people of Mexico shall

have been left absolutely free from the operation, effects, and consequences of his own political and military intervention, we will ourselves respect their self-established sovereignty and independence. In this view of the subject only can we consider his appeal pertinent to the case. Regarding it in only this aspect, we must meet the Emperor frankly. He knows the form and character of this government. The nation can be bound only by treaties which have the concurrence of the President and two-thirds of the Senate. A formal treaty would be objectionable as unnecessary, except as a disavowal of bad faith on our part, to disarm suspicion in regard to a matter concerning which we have given no cause for questioning our loyalty, or else such a treaty would be refused upon the ground that the application for it by the Emperor of France was unhappily a suggestion of some sinister or unfriendly reservation or purpose on his part in withdrawing from Mexico. Diplomatic assurances given by the President in behalf of the nation can at best be but the expressions of confident expectation on his part that the personal administration, ever changing in conformity and adaptation to the national will, does not misunderstand the settled principles and policy of the American people. Explanations cannot properly be made by the President in any case wherein it would be deemed, for any reason, objectionable on grounds of public policy by the treaty-making power of the government to introduce or entertain negotiations.

With these explanations I proceed to say that, in the opinion of the President, France need not for a moment delay her promised withdrawal of military forces from Mexico, and her putting the principle of non-intervention into full and complete practice in regard to Mexico, through any apprehension that the United States will prove unfaithful to the principles and policy in that respect which, on their behalf, it has been my duty to maintain in this now very lengthened correspondence. The practice of this government, from its beginning, is a guarantee to all nations of the respect of the American people for the free sovereignty of the people in every other state. We received the instruction from Washington. We applied it sternly in our early intercourse even with France. The same principle and practice have been uniformly inculcated by all our statesmen, interpreted by all our jurists, maintained by all our Congresses, and acquiesced in without practical dissent on all occasions by the American people. It is in reality the chief element of foreign intercourse in our history. Looking simply toward the point to which our attention has been steadily confined, the relief of the Mexican embarrassments without disturbing our relations with France, we shall be gratified when the Emperor shall give to us, either through the channel of your esteemed correspondence or otherwise, definitive information of the time when French military operations may be expected to cease in Mexico. . . .

Part Seven

GROWING PAINS IN THE  
POST-CIVIL WAR  
DECADES



# INTRODUCTION

## 1. PARTY GOVERNMENT

*Election of 1872.* The administrations of Grant disappointed the Radical Republicans and indeed—as they continued—shocked the whole country. For not only did Grant withdraw federal troops and legal officers from the Southern states—thus making possible the completion of white redemption—but he also surrounded himself with a company of professional politicians who despoiled the public offices and were responsible for a whole flock of scandals. As a result, even before his first administration was over, in 1872, there appeared a schismatic group in the ranks of the Republicans that sought to capture the machinery of the party itself; this failing, it entered the race in the presidential election of that year, under the name of the Liberal Republican party. There joined the ranks of the Liberal Republicans many friends of good government who advocated Civil Service reform and tariff revision.

In May, 1872, the new party nominated Horace Greeley of New York for their standard bearer and named Gratz Brown of Missouri as his running mate. The Democrats, incapable of resolving their own internal difficulties, endorsed the candidates of the Liberal Republican ticket at Baltimore when they held their convention in July. Despite this joining of hands on the part of reformers and Democrats, Grant was reelected by an impressive majority. The scandals in public administration continued; and Grant's second term was further made difficult by the appearance of financial panic in September, 1873. Hard times lasted until 1879.

*Election of 1876.* The Southern question was not actually ended until the election of 1876. In this contest, the Republicans went

to Ohio and picked as their candidate Rutherford B. Hayes, who had been a Civil War general and was also acceptable because he had favored hard money in a region where inflation was popular. The Democrats, as in 1868 and 1872, turned to New York and nominated Samuel J. Tilden. Tilden had distinguished himself as a reform governor and had, in fact, waged a successful war against the notorious Tweed ring which had been dominating New York City politics. Like Hayes, he was thoroughly acceptable to the business community because he was a man of wealth and had demonstrated his soundness on such questions as railroad consolidations and a high tariff.

The presidential election of 1876 ended in uncertainty. Tilden carried New York, New Jersey, Connecticut, and Indiana, and apparently all the Southern states; and he seemed to possess a majority in the electoral college. However, two sets of returns were submitted for the electoral votes of the three Southern states of South Carolina, Florida, and Louisiana—that is to say, the Republicans claimed that they had won these states, too. Congress was now compelled to take cognizance of this anomalous situation. Congress, with a Republican Senate and a Democratic House, found a way out of its dilemma by setting up an electoral commission of fifteen members made up equally from the House, the Senate, and the Supreme Court bench. By a strict party vote of eight to seven in each instance, the electoral commission accepted the certificates of the Republican electors from Louisiana, Florida, and South Carolina. On March 2 the final count was taken and Hayes was declared President with an electoral vote of 185 to 184.

It has since been divulged that an under-

standing was arrived at between Republicans and Democrats under which the Democrats promised not to contest the findings of the electoral commission if, in return, the last federal troops were withdrawn from the South. Whether Hayes was party to this bargain or not, in any case his first concern as President was to recall the federal regiments from the capitols of Louisiana and South Carolina. By this act, all former Confederate states were once again under white Democratic rule, and the processes of redemption were now completed.

*Party Leadership.* The party contests, from 1876 to 1892, rarely rose above the trivial, when it came to a consideration of questions of public policy. And the choice between Democratic and Republican nominees was more frequently than not that between Twiddledum and Twiddledee. On both sides there was a willingness to accept the verdicts of the Civil War and Reconstruction to this extent: industrial capitalism had triumphed and policies supporting it were not to be reexamined; nor was Radical Republicanism to be reinstalled in the South. Because men of great talents found continued extraordinary opportunities for achievement in the fields of railroad and industrial promotions, party government was dominated by mediocrity. For the most part, those who filled Congressional and Senatorial seats and held executive posts were men of small stature, much more interested in personal factionalism and the spoils of office—politics had become a livelihood—than in the serious exploration of the problems facing a growing America.

From 1874 on, the Republican party was dominated by two groups who called themselves the Stalwarts and the Half-Breeds; the first was loyal to Grant and the second opposed to him. But on these questions they saw eye to eye: both were hostile to tariff reform, to the establishment of a Civil Service, to cleaning the corruptionists out of public office. Outside of these two factions moved those who at different times denominated themselves Independent

Republicans, Liberal Republicans, and Mugwumps. They represented the reformers in the party and were more likely to attract the younger men; but they had little influence in party councils.

The Democratic party was less torn by strife, chiefly because of its long absence from federal power. Such leaders as it had were prominent state politicians, among whom were to be found Tilden and Cleveland of New York, Thurman of Ohio, and Hendricks of Indiana. In national contests the Democracy could count only upon the South. From time to time it sought to court the so-called doubtful states of the Middle West, by flirting with inflationary ideas; and in a half-hearted fashion it attacked the high protective tariff program of the Republicans. Indeed, during the seventies and eighties, such divisions as occurred in Congress on legislative matters—money and banking, public lands, regulation of railways—were on sectional lines regardless of party affiliation. The West and the South generally were arrayed against the North and the East. Nothing demonstrated more convincingly the failure of party leadership.

*Election of 1880.* The unresolved feud between the Stalwarts and the Half-Breeds led to the nomination of James A. Garfield of Ohio as a compromise candidate; as his running mate Chester A. Arthur of New York—a follower in the train of Conkling and therefore a Stalwart politician—was named. The Democrats in their turn chose General Winfield S. Hancock of Pennsylvania, who had had a distinguished Civil War career, came from a manufacturing state, and at the same time had made many friends in the South because of the mildness of his military rule. Because the Republicans were able to carry the Middle West, Garfield won by an electoral vote of 214 to 155.

Garfield permitted the Half-Breeds, led by Blaine, to dominate his Cabinet and to distribute the presidential patronage. Blaine himself became Secretary of State. The professional politicians at once obtained control over

the federal offices and began to raid them. Unfortunately, Garfield had no time to show his mettle, for he was shot down by an assassin in July and died in September, 1881. Chester A. Arthur succeeded him.

It is true that Arthur had been a machine politician, but his deportment as President was exemplary, and he left office with a series of distinct achievements to his credit. During his administration, the country's first Civil Service law (the so-called Pendleton Act of 1883) was passed; the question of Chinese immigration was settled; and the initial ships of the modern American Navy were approved by Congress.

*Election of 1884.* In June, 1884, the Republican party finally named James G. Blaine of Maine as its candidate and picked the Stalwart politician General John H. Logan of Illinois to run with him. The Democratic standard was placed in the hands of Grover Cleveland of New York, who was available for many reasons. He was from a doubtful state, he had been a reform governor and an enemy of Tammany Hall, he was a conservative on economic matters, and he was a straight party man. The Mugwumps were now in difficulties, for there had already been noised about hints of Blaine's associations with unscrupulous railroad promoters. The result was that men like Carl Schurz and Henry Ward Beecher could not support his candidacy. Not so however the rising young politicians Theodore Roosevelt of New York and Henry Cabot Lodge of Massachusetts; they had been Mugwumps, too, but they followed party rather than conscience and took part in the canvass for Blaine.

Blaine's was not the only reputation that was besmirched in the campaign of 1884; because there were no issues, Cleveland, too, became the center of personal attack. It was divulged that Cleveland was the father of an illegitimate child, and obviously much was made of this dereliction. Ironically enough, what determined the outcome of the election was a chance remark made by a visiting Baptist clergyman who called on Blaine in New York toward the

close of the campaign. This gentleman, in hailing Blaine's candidacy, grandiloquently condemned the Democracy as the party of "Rum, Romanism, and Rebellion." Blaine failed to rebuke the minister, and the next day it was already too late, as Catholic New York City was alienated. New York went Democratic by only 1,100 votes; and Blaine lost also the doubtful states of New Jersey, Connecticut, and Indiana. The final electoral vote showed 219 for Cleveland and 182 for Blaine. The Democrats also carried the lower House, although the Senate continued to remain Republican. The Democrats had returned to power after the lapse of a quarter century.

Cleveland's first administration was devoid of important accomplishment. He appointed a number of capable Cabinet officers and put an honest official in charge of the General Land Office. On the other hand, he deported himself like a typical spoilsman, thus alienating his Mugwump supporters. As far as the tariff was concerned, because of the presence of many protectionists in his own party ranks and because he did not dominate the Congress, he was unsuccessful in effecting tariff reform.

*Election of 1888.* Despite all this, Cleveland received the Democratic nomination on the first ballot and Thurman of Ohio was named for the vice presidential office. The Republicans went to Indiana and New York for their candidates, nominating Senator Benjamin Harrison from the former for President and Levi P. Morton from the latter for Vice President. Interestingly enough, in this election—which again revolved about no significant questions of public policy—Cleveland obtained a plurality of the popular vote, but Harrison won in the electoral college by a vote of 233 to 168.

Harrison's political accomplishments were more impressive than those of previous administrations. In the year 1890, the high McKinley tariff bill was passed; a service pension law for Civil War veterans was put on the statute books; and the Sherman Silver Purchase Act and the Sherman Anti-Trust Law were enacted. In order to further strengthen its hold



on the electoral college, the Republican party provided for the admission of the sparsely populated territories of Idaho and Wyoming to the company of states. Another characteristic of the times was the growing influence of the speakership in the lower House. From 1890 to 1910 the House's presiding officer ruled with a rod of iron. The new tariff law was a bitter pill; and the result was the victory of the Democrats in the Congressional elections of 1890. Even McKinley, the bill's author, failed of reelection and had to console himself with the Ohio gubernatorial office. There also appeared in Washington many new and strange faces, some of them those belonging to a new political group called the Farmers' Alliance. And not least among the new junior members was a young Nebraskan Democrat, William Jennings Bryan. Thus divided, Congress spent its time making speeches.

*Election of 1892.* At the conventions of 1892 Harrison was once more named by the Republicans and the Democrats again turned to Cleveland. Now for the first time, an important third party movement emerged in the appearance of the People's party, which nominated James B. Weaver of Iowa as its candidate. Extended discussion of Populism and its platform will be presented later; it is enough here to point out that the strength of this new party contributed largely to Harrison's defeat. The end of the campaign saw Cleveland sweeping the country; for he carried not only the Solid South but also the doubtful states of Connecticut, Indiana, New Jersey, and New York. His total electoral vote was 277 to Harrison's 145. The Populists obtained 22 electoral votes in all. For the first time, too, since the Civil War, the Democrats also won safe

majorities in both Houses of Congress; while the Populists elected ten Representatives and five Senators.

Cleveland's second administration lay under the heavy shadow of the depression of 1893-97. Fierce industrial strife, agricultural distress, and business failure and unemployment held the land in their grip. The incapacity of Cleveland to see the depression in terms other than monetary ones—he regarded the Silver Purchase Act of 1890 as the source of all evil—made impossible the formulation of any positive plans by the administration. Too, the Populist program had captured the imagination of many Democratic groups in the West and the South. Indeed, before 1893 was finished, Cleveland's party had repudiated his leadership. One concession to the traditional position of the Democracy was made in the enactment of the Wilson tariff bill. But even here revision downward was only in the raw material schedules; for the House bill was rewritten by Democratic Senators from industrial states who sought to preserve protection. Cleveland flayed his party leaders; yet he allowed the bill to become a law, without his signature, in August, 1894.

The Congressional elections of 1894 resulted in another defeat for Cleveland, for the Republicans obtained a great majority in the House and a safe lead in the Senate. The West turned to the Populists, sending seven Congressmen and six Senators to Washington from that party. The stage was already being set for the great debate of 1896, with Cleveland destined to be only a bystander. When in 1896 he deserted his own party, because it had largely adopted the Populist program, he was a man without influence.

## 2. SETTLING THE COUNTRY

*Population Growth.* Between 1870 and 1900, the population of the United States doubled; at the end of the century America could boast of 76,000,000 inhabitants. Population growth

was due to the increasing urbanization of the country, the heavy influx of European immigrants, and the rapid settlement of the West. Indeed by 1890, the frontier was largely gone.

The filling up of the cities of America was a significant characteristic of these decades. In 1870, only one fifth of the country's population was urban (living in places of 8,000 or more). By 1900 this ratio had increased to one third, and the great metropolis had definitely emerged. In 1870 there had been but seven cities having 200,000 or more inhabitants; in 1900 their number had grown to nineteen. Also, the number of native-born whites of foreign parentage showed a measurable increase. In 1870, this group represented 20 percent of the population; by 1900, it had increased to 23.4 percent. In point of age, the population of the United States had definitely the characteristics of a pioneering and immigrant people. It was a young nation that settled the West, built the railroads, and laid the foundations of America's industrial greatness: in 1870, 85 percent of America's inhabitants was 45 years or younger; by 1920, this ratio had dropped to 79 percent.

*The Passing of the Frontier.* America's empty West was conquered before the turn of the new century, so that in every region of the country by 1900 there were to be found all those amenities of a settled life. The sweep toward the West had gone on inexorably, with, of course, temporary setbacks. The prairies had finally been brought under the plow by the fifties; the plains of western Kansas and Nebraska had yielded to the persistence of American pioneers by the late eighties. There were still, it is true, bold spirits battling the fierceness of nature in the deserts of western Colorado, Utah, New Mexico, and Arizona. But really the frontier was no more: for East had joined West, and now the same tastes, the same attitudes toward life and, in fact, the same consumer goods were filling one great continental market.

The factors that had contributed to this remarkable growth may be briefly noted: (1) Homesteadism and the low prices of railroad and state lands had beckoned hundreds of thousands of settlers. (2) Railroad nets, crossing the trans-Mississippi West in the north, the

center and the south, bound all sections of the country together. (3) The Western states, the railroads, and the new steamship companies carried on an active propaganda in all the European countries, and encouraged millions to seek their new fortunes in the growing America. (4) There was a boom in the cattle industry in the seventies and eighties on the Great Plains, and foreign capital and immigrants eagerly came to engage in it. (5) Gold was discovered in the Dakotas and silver throughout the whole Far West, so that many prospectors entered these regions. (6) A series of bad harvests hit almost all the wheat-growing nations of the world in the seventies and sent European peasants and Eastern farmers into the West to open up new wheat fields. (7) The wars in which European nations were engaged in the sixties and seventies compelled many, who found compulsory military service distasteful, to quit their native lands.

By thousands of families, every day, new settlers forced their way into the uninhabited territories of the Far West. They brought small capitals, because land had to be purchased and tools acquired; they carried all their household possessions with them; they drove their livestock before them. There were few comforts of life. Because of the scarcity of timber they lived in dugouts or sod houses. Indians, prairie fires, blizzards, locusts, and droughts made the lives of the pioneers on the Great Plains difficult and frequently too hard to bear. The population was heterogeneous, coming from many lands and different states, speaking numerous languages, and worshipping God in a great variety of ways. Yet houses were built, communities arose, schoolhouses were erected, and the Indian was pushed farther and farther back. Inventions appeared to make agriculture less arduous, and agricultural colleges—thanks to the Morrill Agricultural College Act—sprang up in the Western states to bring science to the aid of the farmers and the ranchers. Thus Nature was conquered. Before long, however, the pioneers discovered other enemies—in the railways, the land mortgage companies, the

tariff-protected industries, and the commercial banks. The political programs of Populism came from a pioneering people in response to those man-made obstacles which the settlers could not overcome by their courage and ingenuity.

*Immigration.* As has been said, European immigration was one of the great forces in the building of the United States. From 1820 to the end of the century, almost twenty million immigrants poured into the country. It is true that the misery of European slums and the unequal status of tenant farming made the break with home ties easy; and that the official oppression of minorities in Austria-Hungary and Russia added their thousands to the immigrant stream. In addition, transportation was cheap, farm lands were easily acquired, wages were high. There was freedom of religious worship and no military service and no ruling caste. America was the land of opportunity in a very real sense. So they came—first the Irish, Germans, English, Welsh, Scandinavians; and then, beginning with the 1880s, the Italians, Poles, Finns, Croats, Rumanians, Czechs, Ruthenians, Jews, Turks, and Greeks. They went to the farms and the cities; and to the lumbering and railroad-construction camps, the mines, stockyards, mills, factories, and sweatshops of America.

Every decade from the 1870s up to the outbreak of the first World War saw the stream of immigrants increasing. In the seventies total immigration came to 2,800,000; in the eighties to 5,246,000; in the nineties to 3,687,000. In the first ten years of the twentieth century almost a million Europeans, on an average every year, entered the United States. The decade of the eighties was to see not only new immigration records being established, but a profound change making itself evident in the national character of the newcomers. Up to the eighties, three fourths of all the persons who migrated to the United States came from the Celtic and Teutonic countries of northern and western Europe; and then immigrants from southern

and eastern Europe and from the Near East took their places.

The introduction of these new groups, with their strange languages and curious customs, slowly transformed the attitude of the typical American from one of welcome to one of hostility. The new industrialists obviously encouraged their arrival; for they were willing workers and not yet accustomed to the high standards of living of native-born American labor. Members of skilled trade unions, however, were becoming increasingly suspicious, for they feared attacks upon trade union standards. Perhaps more important than these influences were the attitudes of politicians, sociologists, and social workers, who were beginning to claim—with dubious statistics, it is true—that America's new immigrants were responsible for the poverty, juvenile delinquency, and crime of America's slums. It was also being charged that the foreigners were bringing subversive ideas into the United States, that they were America's anarchists and socialists. Slight as were the merits of these contentions, the demand for immigration restriction began to appear. And, presently, legislation aiming at selection was being put on federal statute books.

*The New Agriculture.* It was inevitable that these movements should help in transforming the American agriculture. The new settlers of the West came to raise beef cattle and sheep and to grow wheat and corn. The increasing demands for the products of the soil from an America becoming urbanized, the growing difficulty of Europe in feeding itself, and America's international position as a debtor nation were among the other important factors accounting for the extraordinary development of American agriculture. In other words, the young industrial capitalism of the United States needed to import capital for railroad building on the one hand, and tin, nickel, crude chemicals, rubber, silk, machinery, and fine tools on the other. To meet interest charges on foreign loans and to pay for foreign imports,

the United States had to develop its exports on a vast scale. Up to the end of the nineteenth century the foodstuffs and cotton from the American West and South performed this function; in this way, agriculture and industry were linked.

In the forty years from 1860 to 1900, the size of the American farm domain more than doubled; also, the acreage under crops increased, not only absolutely but proportionately as well. In 1860, the capitalized value of American farm properties was less than eight billions of dollars; by 1900, it was a little more than twenty billions. The American farmer possessed a large freehold—the average size of the farm was 147 acres in 1900; he constantly added improvements to his farm home and buildings; and before the century was over he was breeding blooded beef cattle, dairy cattle, and hogs.

*Wheat.* With the assistance of machinery, the wheat lands of America spread out into the prairies and plains. As they did so, the more settled regions of the East and the Middle West turned to dairy and general farming. In 1859, America produced 173 million bushels of wheat, with Illinois and Indiana the most important wheat-growing states; in 1899 production was 659 million bushels, with Minnesota and North Dakota in the lead. In Illinois, Indiana, Ohio and Iowa, wheat lands had been converted into corn fields, and hogs were being raised for Eastern and European markets.

The improvement of farming machinery and the great increase in American agricultural productivity came as a result of the perfection of the plow and the reaper. In the fifties a plow with a steel mold-board, capable of turning up the tough prairie sod, was on the market; and in 1870, the Oliver plow, fabricated entirely of chilled steel, was being manufactured and sold widely. Some slight notion of how improvements in plows, as well as in seeders and harrows, facilitated the rapid exploitation of the virgin soil in the West and made the United States for at least three decades the

granary of the world, may be gained from these facts: In 1830, it took 32.8 minutes to prepare the soil for a bushel of wheat; in 1900, it required only 2.2 minutes.

The reaper played as significant a role in the development of the new agriculture. In 1833, the Hussey reaper made its appearance; and in 1834, the McCormick reaper was perfected. Cyrus H. McCormick left the Shenandoah Valley of his birth and took his new machine west, first opening his factory in Cincinnati and then in 1847 in Chicago. McCormick sold his reapers on the installment plan and before long the great majority of the farms of the prairies and plains were using them. Binding was still a hand process, but it was not long before the McCormick machine was accomplishing this task as well. In 1879 appeared the Deering binder, which bound the sheaves of grain with twine. There now followed the modern threshing machine and finally the great grain combine, which united the processes of harvesting and threshing, so that the grain was ready for the mill before it was entirely off the fields.

The saving in human labor through the perfection of all these devices was extraordinary. In 1900, the amount of labor time needed to produce a bushel of grain from beginning to end was 10 minutes as compared with the 183 minutes of 1830. By 1900, American wheat farms possessed gang plows, harrows, seeders, mowers, self-binding harvesters, and steam engines and threshers. How far the mechanization of American agriculture advanced is revealed by this single fact: In 1859 the total value of farm implements manufactured was 8 millions of dollars; by 1899, it was greater than 100 millions of dollars.

*Cotton.* The return of cotton to the American export market also helped in the improvement of our international position. The redemption of the Southern states made possible the establishment of the share-cropper system, and by 1880 share tenancy held the South in its thrall. Under share-cropping, the landlord sup-

plied the land, the cabin, the mule, the plow, and the seed of the renters; and he got one half of the money from the sale of the crop. He also "furnished" his tenant with meal, meat, and molasses during the growing season, deducting this indebtedness from moneys due. In view of the fact that country merchants were willing to lend to planters and supply them, against crop liens, the financing of the whole system was made possible. The upshot was that cotton plantings grew and the areas under cotton spread west and north over the whole South. Before Reconstruction was over, cotton was being grown on only 9 million acres; by 1900, this had increased to 25 million acres. The cotton crop of 1859 totaled 4,300,000 bales, with Mississippi and Alabama the leading cotton-producing states. It was not until 1878 that cotton once more was being grown in the same amount. But by 1899, the cotton crop of the United States was 9,400,000 bales, with Texas now the most important center of production.

*Cattle.* The American cattle industry even preceded the appearance of wheat and cotton growing in the American West. For some two centuries longhorn cattle, which had been known to the Southwest since the early days of the Spanish occupation, had been bred on the Texas plains largely for their hides. The coming of the Union Pacific and the Kansas Pacific railways into the Western country opened the eyes of Texas cattlemen to the possibilities of the meat market of the East. They crossed the longhorn cows with imported sires and produced a new variety of beef cattle which could be shipped into new markets. The

unfenced plains of the public domain, where pasturage was bountiful and free for the taking, gave the industry every opportunity to develop. Cattle were driven northward to the railheads of the Union Pacific and here were loaded on the trains that took them to the Kansas City and Chicago stockyards.

During the eighties the long drive lengthened as the herds of beef cattle were driven into northern Colorado, Dakota, Wyoming, and Montana. There followed boom times in the cattle industry and foreign capital poured into the country to permit of operations on a large scale. But by the end of this decade, the cattle industry—at least as far as the open range was concerned—was ended. Overstocking of the business had taken place; homesteaders had begun to clamor for the fencing of the open range; and public quarantine regulations prohibited the movement of the longhorns across state lines. It is also to be observed that more and more only yearlings were being shipped out and these were being sent into the Middle West and even into the East for stocking and feeding; and the longhorns were being replaced by full-blooded Herefords and Anguses. The longhorns had lived their brief colorful career on the open range and, as this was shut off, another episode in the history of the American frontier was ended. But the stockyards which had grown with the cattle industry—the Union Stockyards of Chicago had first opened in 1865—continued to flourish, and the Swifts, the Armours and the Morrisises, who had made their appearance here, continued to expand mightily with the American meat-packing industry.

### 3. INDUSTRIAL CAPITALISM'S VICTORIES

During the seventies and eighties, the processes of making industrial capitalism's house secure went on politically; and its economic achievements were equally great. Within a free climate, America's industry reached man's estate before the nineteenth century was over.

*War Bonds and Sound Money.* During these

decades, Republican Treasury officials concerned themselves with the redemption of the war bonds in sound money. Many of these had been issued with the stipulation that they were to be repaid in coin. In 1873, Congress decided that coin meant only gold. In 1878 it declared that no new issues of greenbacks were to be

made. On January 1, 1879, the Treasury resumed specie payments. In this way, all those who had invested in public and private securities during the war years were assured of returns in a vastly appreciated dollar. And America's return to the gold standard made it possible for European capital to flow here once more for investment.

*The Fourteenth Amendment.* The Fourteenth Amendment was utilized by the Supreme Court for the protection of property rights. Originally, presumably, the Fourteenth Amendment had been drawn up by the Joint Committee on Reconstruction in 1866 for the purpose of safeguarding the civil rights of Negroes. Section one of the amendment included this significant sentence: "No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any state deprive any person of life, liberty, or property without due process of law; nor deny any person within its jurisdiction the equal protection of the laws."

In the beginning, it was generally assumed that the concept of "due process" had only a procedural intention. Indeed, in early cases in which the Fourteenth Amendment was appealed to as an authority (notably the *Slaughterhouse* cases of 1872 and the *Granger* cases of 1876) the Supreme Court had so held. But as a result of the claim of Roscoe Conkling (a member of the Joint Committee) when he appeared before the Supreme Court in 1882 and stated that the Joint Committee was interested not only in Negro civil rights but equally in protecting property rights from confiscatory state legislation, the Supreme Court began to shift its ground. Beginning with 1886, therefore, the concept of "due process" was given a substantive interpretation, that is, it came to be regarded as a limitation upon government in connection with the substance of legislation. In effect, federal courts began to find that the natural and inalienable rights of the person to life, liberty, and property could not be abridged. Thus, the individual businessman or the corporation (also regarded as a "per-

son" under the first section of the Amendment) could continue unhampered, secure in his property rights and protected against leveling legislation. The fact is, up to the 1930s, the Supreme Court continued to function in terms of such a reading of the concept of "due process"; and it was not until a new bench appointed by Franklin D. Roosevelt began to revert once more to a more limited procedural interpretation that the power of the states to limit and control property came to be recognized.

*Monopolists in the Public Domain.* The quick disposal of the public domain made possible not only the utilization (and wasting) of vast natural resources in timber and minerals by the new industrial capitalists; it also created means by which the railroads could obtain revenues quickly for the purposes of constructing and expanding their systems. It is true that the Homestead Act of 1862 opened the public domain to free settlement and that large numbers of freeholders benefited from the governmental largess. It is equally important to observe, however, that an even greater proportion of Western settlers entered the public domain by purchase. Thus, the public land system led to speculation, monopoly, and fraud; in fact, up to the nineties, the General Land Office was woefully inefficient and the willing tool of the land jobbers.

Thus, great fortunes were built up by land speculators and monopolists. Moreover, factory farms made their appearance to utilize machinery and migratory labor, under highly undesirable working conditions. Many of these so-called bonanza farms failed before the nineteenth century was over; but enough survived to point up the evils of this kind of absentee wealth. However, it is important to have in mind, that estates—European style, seating a large landless peasantry—did not emerge; land operators wanted only to sell, and they sold at low prices. Had the public domain been carefully safeguarded, modern America could not have emerged.

*Building the Railroads.* The railroads in par-

ticular profited from the generous land policy of government. Between 1830 and 1860, only some 30,000 miles of railroad track were laid down in the United States. By 1900, the United States could boast of 193,000 miles of railroad line, more than the combined mileage of all the European nations. The advance of the railroad industry in the United States was the result of a combination of many forces: (1) The huge grants of land from the public domain to the companies building westward from the Mississippi River to the Pacific Coast played their part. In time the Federal government permitted railroads to patent 131,400,000 acres of the public domain. Revenues obtained from the sales of these lands made possible the financing of a good part of railroad construction. (2) Real economies in railroad management took place, necessitated by reduction in rate schedules arising out of early railroad competition and then later railroad regulation by the states and the Interstate Commerce Commission. (3) Many railroads bought into coal lands and coastwise shipping fleets. By these devices, railroading was also able to reduce substantially its costs of operation. (4) Improvements in operation and services occurred: by the utilization of steel rails; the adoption of the dining car and Pullman sleeper; and the invention of the Westinghouse airbrake and the block signal system. Railroads also were the first agencies to span the great rivers of the American West. Thus, the country was getting an effective railroad system. At the same time, early manipulation by promoters and, beginning with the nineties, control of the railroads by the investment bankers made possible the building up of some of the country's greatest fortunes. In fact, before the rise of Carnegie and Rockefeller, the persons who left really great estates in America were men like the Vanderbilts and the Goulds. Some had obtained their fortunes by honest railroad construction, some simply by stockwatering.

The combination of lines into rail systems was the work of the enterprisers of this period. The first great American railroad man to ap-

pear was Cornelius Vanderbilt, who entered the industry after he had already become wealthy in steamboats. In 1860 Vanderbilt set to work to erect the New York Central system, and by 1869 he was operating a unified trunk line running from New York City to Chicago. Also in 1869 he recapitalized the system at 86 millions of dollars, adding by a single stroke a book value of 42 millions to the properties of the company. But Vanderbilt was a far-sighted railroad manager: he double-tracked his lines, led the way in the use of steel rails, threw modern bridges of steel across embankments and rivers, and acquired for his railroad the Grand Central Terminal at New York City. Other important systems built up in the East in this period were the Pennsylvania Railroad, the Baltimore and Ohio, and the Erie. The first two followed the example of the New York Central Railroad and added significantly to their improvements. The third fell into the hands of Jay Gould and other manipulators and became a football of stock-market speculation.

The great Western railroads received, as has already been pointed out, subsidies from the government in the form of land grants and loans. This was true of the Union Pacific, the Central Pacific, the Great Northern, the Northern Pacific, the Kansas Pacific, and the Missouri Pacific. Into the history of the Great Northern (and later, the Northern Pacific) entered James J. Hill, who succeeded in building up a mighty empire of railroads, timber properties, and farm lands in the Northwest. Like Vanderbilt before him, Hill was a railroad man first and a promoter second; and he created a vast system and opened up the Northwest country to settlers.

It has been said that the land-grant railroads patented a total of 131,400,000 acres. If to this amount are added the grants made by the states, the whole acreage thus turned over probably came to at least 180 millions of acres—a domain approximately the size of the state of Texas. If a nominal value of only two dollars an acre is placed on these lands, this form of subsidy to



the Western railroads reached the impressive total of 360 millions of dollars. The actual money grants made to the railroad builders were even greater; in fact, a conservative estimate has placed the amount thus received from all public sources at 700 millions of dollars. By 1870 when this form of aid had largely ceased, public financing had contributed at least two fifths of the cost of laying down the American rails.

The role of European capital in the railroad construction was also of the first importance. The bonds of the American rails for the most part were sold in England, Germany, and Holland. The result was that in 1900 of the \$3,300,000,000 worth of American securities held abroad at least three billions represented ownership of American railroad securities. In 1900, the capitalization of the American railroads was put, by the Interstate Commerce Commission, at \$11,500,000,000. Without public help and foreign capital, the American railroads could not have been built.

*Tariffs.* The protective tariff system, adopted by the Civil War Republican Congresses, was continued throughout the whole of this period. The fact is, up to 1896 (except once in 1888) Republicans and Democrats were in substantial agreement on the necessity for maintaining protectionism for American industry. Efforts at tariff revision downward—and here only Democrats in the House remained true to their party's traditional position—were uniformly unsuccessful. For example, the tariff bill of 1875, calling for reductions, was a Democratic measure, but it never got out of the House. In 1884 and again in 1886, despite the fact that the Democrats once again controlled the lower House, bills to lower tariff schedules were killed on routine motions. Only once, in 1888, did the leadership of Cleveland seek to assert itself. The President called upon a Democratic majority in the lower House to reduce the tariff rates of 1883. He was worried over the surplus in the Treasury: it stood at more than one hundred millions of dollars. The tariff bill of 1888 sought to reduce

duties on pig iron and cotton and woolen goods, and vastly amplified the free list. But the Senate of 1888 was a Republican one, and it therefore wrote a high protective tariff bill which the House Ways and Means Committee at once rejected.

The Republican victory in the next election led to the writing of the McKinley Tariff Act of 1890, which pushed rates upward to levels not previously attained. The wool and woolen schedule, the heart of the tariff, was strengthened; the rate on steel rails was raised; the duty on refined sugar was placed at one half a cent a pound; raw sugar was put on the free list. The tariff law was unpopular and the Republicans lost the presidency and both houses of Congress in the election of 1892. Now, for the first time since the Civil War, the Democrats were in a position to redeem their campaign pledges. The result was, the Wilson tariff bill, when it left the House on February 1, 1894, did provide for reduction downward. Also it included a provision establishing an income tax of 2 percent on all incomes in excess of \$4,000. Cleveland, however, was not in a position to crack the whip over the Senate. The fact is, Southern Senators, seeking to safeguard their regional interests in sugar, coal, and iron, were recalcitrant. They joined forces with the Republicans and the coalition wrote a high tariff bill. The House, although its indignation was great, was compelled to accept the Senate bill and Cleveland permitted it to become a law. The Democrats were further humiliated when the income tax section of their act was declared unconstitutional by the Supreme Court in 1895. Thus, protectionism cut across party lines.

*The Achievements of American Industry.* From the Civil War up to the nineties, therefore, many forces combined to favor the new leadership which had emerged in American industry. Tariffs protected the infant industries. The domestic market grew vastly, thanks to the completion of the railroad net and the in-pouring of great numbers of immigrants. An expanding agriculture fed well the native population and also created surpluses to pay for

imports of raw materials and semiprocessed goods and to make possible the meeting of interest charges on foreign borrowings. The opening up of the public domain made readily available great stocks of raw materials—lumber, iron, coal, petroleum, lead, copper and silver.

With American industry under an aggressive and imaginative leadership, productivity increased by leaps and bounds. Inventions and new processes appeared in an unending stream, notably assisting the progress of the country's two great capital goods leaders of iron and steel and machinery. By the 1880s, Americans were already familiar with the following: mechanical reapers, mowing and seeding machines, and the steam plow; the Bessemer process for making steel rails; electroplating and the electrotpe; the steamhammer, the steam excavator, and the steam drill; dynamite; the sewing machine; the use of the electric light and the electric dynamo; the compound steam engine; the rotary printing press; hydraulic lifts, cranes, and elevators; and the industrial use of nickel, cottonseed oil, natural gas, and petroleum products.

In 1860, the capital invested in American manufacturing was one billion dollars; in 1900 it was almost ten billions. In 1860, the value of American manufactured products was not quite two billions of dollars; in 1900 it came to thirteen billions of dollars. In 1860, there were only 1,300,000 wage earners in American manufacturing; in 1900 their numbers had increased to 5,300,000. Nothing demonstrated more impressively the great advances of the new machine age in America than the production of basic raw materials. The following figures really tell the story of America's industrialization.

*Production in America*

	1860	1900
Anthracite coal (short tons)	9,620,000	60,418,000
Bituminous coal (short tons)	6,013,000	193,323,000
Crude petroleum (barrels)	500,000	57,071,000
Pig iron (long tons)	751,000	13,621,000
Crude steel (long tons)	10,000	10,640,000

It was no wonder that the national income increased from \$2,380,000,000 in 1850 to \$19,360,000,000 in 1900; and that over the same fifty years the real income per head of the occupied population almost doubled. That is, in the earlier year it was \$787; and in the later year, \$1,388. This was the work of America's first generation of industrial capitalists—the Carnegies, Rockefellers, McCormicks—who were bold and ruthless innovators and enterprisers. They plowed back savings into capital plant; they introduced the new technology; they engaged in cutthroat and unfair means of competition. But they lowered costs and prices and kept wages high. They made great fortunes, and they enriched America in the process. Under their leadership—with government standing by passively—there were periods of roaring business booms and bad recessions.

*The Course of Business.* With the conclusion of the Civil War, the resumption of foreign trade, and the adoption of sounder fiscal policies by the Federal government, the war inflation began to recede. One of the important characteristics of the period was the continued decline of wholesale commodity prices. It was not until 1878 that prices were once more restored to their 1860 levels; and then they went steadily downward. From 1878 to 1896, prices dropped 25 percent. Price movements were not uniform, of course, declining most sharply in wheat and flour, textiles, and iron and steel. From 1866 to 1897 the price of pig iron, in gold, fell from \$33.26 to \$12.10 per ton; and the price of Bessemer steel rails over the same period, also in gold, fell from \$120.18 to \$18.75 per ton. The tapering off of gold production throughout the world may have had something to do with price decline; but more important was the lowering of costs due to technology and superior management.

The workers of America benefited, as a result. Nothing throws more light on the advances industrial America was making than the index figures for real wages. From 1860 to 1900, the real wages of the American worker doubled.

All these were signs of growing up; but business in America had its periods of recession and depression as well as those of expansion and boom. At the basis of depression during these years undoubtedly were to be found the following general causes: (1) Frontiers were being pushed out too hastily, that is to say, there were many speculative investments as well as legitimate ones. This notably was true of the railroading industry. (2) The inadequacy of the American financial mechanism, which did not contain adequate controls over bank reserves and the discount rate, played into the hands of speculative promoters and manipulators. (3) The underprivileged position of agriculture—because agricultural prices dropped much more sharply than did the cost of things the farmers bought—from time to time removed an important sector of the American consuming public from the markets for goods and services.

A downward turn in the business cycle took place following the end of the Civil War, but it was due to the inevitable adjustments required of wartime industries. From 1868 to 1870 revival and boom once more appeared, with railroad construction (employing most of the capital goods industries) showing the way. In 1868, 3,000 miles of new track were laid down; by 1871, new construction was producing 7,000 miles of railroad. But by 1873, with building slowing down, the heavy industries were working below capacity. A poorly functioning banking system and America's unfavorable balance of trade—European loans were really financing American purchases abroad—were the other important reasons for the onset of depression. It lasted up to 1879.

The close connection between European finance and the American money centers has already been indicated. In the spring of 1873, panics had hit many of the European continental cities; and, in England particularly, money had become suddenly tight. Europeans owning American rail securities began to sell; bank balances here were also being withdrawn.

The American banking houses closely tied to European finance could not stand the strain. Speculation, too, played its part, so that the country's bank reserves, deposited in New York City's banks, were out at call supporting the security markets. With the withdrawal of the reserves by banks from New York, the plugs were pulled out and security values collapsed.

*The Depression of 1873-79.* It was no accident that the firm which had brought so much European capital into America—that of Jay Cooke and Company of Philadelphia and New York—should go first. Its New York offices closed their doors in September, 1873, and brokerage houses quickly followed suit. Railroad bankruptcies now multiplied. The New York Stock Exchange shut down, and commercial failures increased enormously. Before 1873 was over, 500 such failures were reported, involving liabilities of 228 millions of dollars. As for the rails, 89 were in default on bond issues worth 400 millions of dollars. The depression continued for six years: railroad building virtually stopped; the unemployed reached at one time a total of three million; immigration slowed down; prices dropped almost 30 percent; and there were widespread vagrancy and serious industrial conflict.

Out of this depression emerged a revitalized capitalism, and it continued its upward career. After 1879, the United States possessed a favorable commodity balance; also, thanks to European crop failures in 1879, 1880, and 1881, foreign gold once more poured into the country. Railroad construction was resumed; farmers, with more purchasing power as a result of better prices, bought new equipment; the iron industry began to build new furnaces for the making of steel; and the capital goods industries once more were experiencing revival. By 1883, when the boom was again in full swing, new railroad construction came to 11,600 miles. In 1884 and in 1888, there were brief recessions; but recovery was immediate and business continued good until 1893.

#### 4. FARMERS AND WORKERS

*The Springs of Western Unrest.* These recurrent booms and depressions and the oppressive tactics of railroad men, along with the inadequacies of farm credit, accounted for the appearance of unrest among Western farmers. It is true that during the seventies, eighties, and nineties, although American agriculture was expanding its horizons constantly, it was operating at small profits or none at all. The American farmer was being sustained in real measure by the constant appreciation of his lands. In Nebraska, for example, in the twenty years from 1870 to 1890 the price of farm land went up from seven dollars to thirty dollars an acre. The farmer's capital, then, was in his land and improvements, and only because these were steadily mounting in value could he keep his head above water. The high value of his land permitted him to convert his floating debts into mortgages, with the result that farm mortgage indebtedness was becoming heavier every year. In the corn belt, in the nineties, it was nothing unusual for the mortgage burden to average well over one third of the total capital value of the farm plant. This situation, in short, strikingly reveals the dilemma that was at the basis of the agrarian problem of the period. Agricultural prices were falling and credit was tight; and, for this reason, a larger and larger proportion of the farm dollar had to go to the meeting of debt charges and tax payments.

The farmer had other enemies. He numbered among them the railroads with their high rates for carriage and their discriminations in favor of the large shipper; the tariff-protected manufacturers, who were refusing to pass on to consumers all the economies effected by the decreasing of costs and the lowering of prices; the bankers and money lenders, who were refusing to lend the farmer on his crop and who were also charging high interest rates on mortgages; and governmental officials, because the greater burden of taxation was placed on realty values and not on income or

personalty. Farm programs, therefore, called for a better control of railroad rates, the checking of monopolies, changes in the system of taxation, the easing of rural credits, and the erection of government elevators and warehouses for the storing of agricultural surpluses, against which negotiable warehouse receipts might be issued. These were the economic demands of the American farmer in the middle seventies, in the eighties and in the nineties. Farm agitation sometimes seemed to emphasize entirely currency reform. Farmer groups were advocates of Greenbackism and free silver, it is true; but essentially these demands for inflation represented not so much an interest in the raising of prices as they did a desire to increase the available currency resources of the country in order to make rural credits easier. The fact is, the heart of agrarian discontent was to be found in the deficiency of short-term and long-term credit.

*Greenbackism.* The Federal government's monetary policy of the late sixties, particularly the limitation on the volume of greenback circulation and the guarantee of the payment of the war bonds in coin, accounted for the appearance of Greenbackism in politics. In 1868, the Democratic party endorsed the idea of the unlimited printing of paper money. But agrarians, and their urban supporters among the trade unionists, were not satisfied with this expression of interest. In 1872 there was organized an independent party called the National Labor Reform party. Its program called for the abolition of the national banks, "a true national currency," and repudiation of the government's funding program. It named a presidential candidate in that year, but made only a slight impression upon the electorate. Greenbackism, however, was too real an issue to be dropped. In November, 1874, another group, this time made up largely of farmers, created a second national independent party. In 1876, nominating the philanthropist Peter Cooper of

New York as its candidate, it adopted a platform which concerned itself almost entirely with financial matters. But again the vote polled was small.

The continuance of the depression through the seventies strengthened the determination of the agrarians to go on, and in 1878 the Greenback Labor party was launched. In the elections of that year, Greenback candidates polled fully a million votes and sent fourteen of their numbers to Congress. In 1880, the Greenbackers named General James B. Weaver of Iowa for the presidency and received 308,000 votes, most of which came from agrarian communities in the West and South. But by 1884, Greenbackism had largely waned and it did poorly in this election and in that of 1888. The platform of 1888, however—this time under the banner of the Union Labor party—was much wider in scope than the customary one of Greenback demands; in fact, it was the immediate precursor of that of the People's party of 1892. It opposed land monopoly, the importation of contract labor, and the reopening of free Chinese immigration. It advocated government ownership of railroads and telegraphs. It called for a graduated income tax, and it demanded woman suffrage and the direct election of United States senators. But labor was apathetic and the Union Labor party drew its strength almost entirely from the Greenback country. Its candidate polled only 145,000 votes. The Greenback agitation disappeared from the political scene with this failure, and some of its leaders moved over into the Populist camp.

*Grangerism.* Another source of agrarian unrest, as has been said, was to be found in the oppressive tactics of the great railroad corporations. Railroad rebates and discrimination prompted American agrarians in the early seventies to enter politics and to seek reform of the railroad industry; and they did this through the agency of a farmer organization called the Patrons of Husbandry, but more popularly known as The Grange. The Grange had been founded in 1868 as a secret society de-

voted to the betterment of agriculture. By 1874, the order had 15,000 local branches and a membership of one and one-half million farmers. The founders of the society, from the beginning, preached the doctrines of producer and consumer cooperation, and many such experiments were started. Cooperative retail stores were particularly numerous. Unfortunately, due to inefficiency of management and unfair competition, most of these early experiments in agricultural cooperation failed.

Although the Granges ostensibly were non-political, it was hard to keep the Western farmers from creating political organizations. In 1873 and 1874, in eleven Western states, farmer parties named state and local tickets and returned large delegations to the legislatures. It was within these bodies that the first enactments for the control of railroads and warehouses were written. In Illinois, for example, a series of laws was passed which provided for the establishment of a railroad commission to prepare schedules of rates and to outlaw discrimination between persons and places; the commission's rulings were to be regarded as *prima facie* evidence of reasonableness. By statute, or by constitutional amendment, similar attempts took place in the states of Iowa, Wisconsin, Minnesota, Missouri, Nebraska, and California, and in many of the Southern states. Legislation was passed against the pass evil, short-haul abuses, pooling, and other railroad practices.

In 1876—refusing to be limited by the due process clause of the Fourteenth Amendment—the Supreme Court declared the Granger laws constitutional. In reviewing a number of cases, arising out of the Illinois, Iowa, Minnesota, and Wisconsin railroad acts, the Supreme Court laid down the following principles of state action: A state might regulate a business of a public nature, particularly one in which there were to be found the elements of monopoly. The right to regulate had not been contracted away unless the legislature had specifically so declared. Powers of regulation rested with the legislature and not the

judiciary. The courts could not pass in review the exercise of the regulatory power by the legislature. In other words, the courts were not competent to review the question of the reasonableness of rates fixed by the legislature or by their agencies. If there were legislative abuses, said Chief Justice Waite, in writing the decision in *Munn v. Illinois*, then the polls were the refuge of the people and not the courts. (It is interesting to observe that the Supreme Court, under the New Deal, came back to this doctrine after more than fifty years of judicial interference.)

But the Granger laws did not survive. A number of them were repealed by legislatures. In addition, the following factors increasingly were rendering them inoperative: (1) There was a complete lack of technical skill on the part of the persons invested with the problems of regulation. (2) The hostility and the ingenuity of the railroad managers were more than enough to offset the zeal of the farmer commissioners. (3) The financial depression of the seventies checked railroad construction and made the West apprehensive lest too drastic restraints put a stop to new building altogether. (4) The rate wars of the late seventies resulted in the permanent lowering of freight charges.

By 1880, better prices for farm products, lower freight rates, the failure of many of the cooperatives, and the virtual disappearance of the Patrons of Husbandry all contributed to the general result. Finally, in 1886, in the case of the *Wabash, St. Louis and Pacific Railroad Company v. Illinois*, which had been decided by the Illinois courts along the lines of the Granger cases, the Supreme Court reversed the principle of the 1876 decisions; and once and for all declared that the states had no right to regulate interstate commerce or interfere with traffic moving across their borders. Their jurisdiction extended solely and exclusively over intrastate commerce; relief could come only through Congress in legislation of a national character. This was the immediate background for the passage of the Interstate Commerce Act of 1887.

*Silver.* The whole silver debate is significant for this reason: with the failure of the agitation for an expanding paper currency, silver became the chief reliance of the agrarians in their quest for cheap money and hence easier credit.

In 1873, after having debated the question in perfunctory fashion, Congress enacted a new mint act. Hidden away in a long and involved piece of legislation was a clause which, in effect, permitted the suspension of the minting of silver, for the statute omitted the silver dollar from the list of coins. This was largely due to the fact that, for the twenty years preceding 1873, silver had not been taken to the mints of the United States because its price was higher than the ratio of sixteen to one fixed by Congress in 1837. About this time, however, that is to say in the middle seventies, the silver production of the world began to increase with the discovery of new lodes in Colorado, Nevada, and Utah. Silver was no longer at a premium but was worth less than gold. In 1874, the ratio fell to 16.7 to 1; and in 1874, it was at 18 to 1. Now it became profitable to mint silver dollars; but when the possessors of silver bullion took their stock to Treasury offices they found that the law of 1873 had demonetized silver. Thus arose the outcry of "the crime of 1873"—for which there was no real evidence as far as the intention of Congress was concerned. Yet the subject became a favorite theme of silver orators and was used with telling effect among agrarian audiences; particularly this was so as it became plain that only through silver could currency expansion take place.

During the late seventies, the eighties, and the early nineties, almost every Congress was to see presented bills calling for the unlimited coinage of silver, first at the ratio of 16 to 1, and then, as silver dropped in value, at any ratio. Congress finally succeeded in writing two laws, one in 1878 and another in 1890, but both called for limited coinage. The Bland-Allison Act of 1878 provided that the Treasury was to buy up to four million dollars in silver bullion monthly, at the market price,

for coinage into dollars. Against these dollars, the Treasury was to issue silver certificates. During the twelve years that the law was in operation, the Treasury added \$378,000,000 to the country's currency in this way.

Here the matter rested until 1890, when, as a result of continued agitation, the Sherman Silver Purchase Act was passed. This law was somewhat more liberal than its predecessor; for it authorized the Treasury to purchase monthly 4,500,000 ounces of silver bullion for coinage into dollars. The new act called for the issuance of Treasury certificates and not silver certificates, and these were to be treated as legal tender except for the payment of customs duties and interest on the public debt. Thus the law not only provided for more silver coinage but it placed gold and silver on a parity because the Treasury certificates, in view of the fact that they were full legal tender, could be redeemed in either gold or silver. The fact is, because of the continuing decline in the value of silver, for the three years of the law's operation the Treasury purchased the full output of American silver mines.

The repeal of the Silver Purchasing Act in 1893—largely because of the insistence of President Cleveland—once more led to a revival of the silver agitation. The demand for unlimited coinage, as well as many other of the monetary and banking ideas of the earlier agrarian parties, now became the concern of the Populists. These the Democratic party took over in 1896, and now the embattled farmers of the South and West really were in a position to challenge seriously the domination of industrial capitalism in the United States.

*The Workers.* Thus, the inferior position of the nation's farmers; the workers—organizationally, at any rate—fared no better. The Civil War brought no gains for the country's laboring populations. It is true that a series of national unions emerged: in 1861, the miners formed one; in 1862, the ironworkers; in 1863, locomotive engineers; in 1864, cigarmakers; and in 1865, carpenters, bricklayers, painters, heaters, and coachmakers. But the unions did

not succeed in raising wages (indeed, as we have seen, real wages dropped during the Civil War); nor were they able to set up powerful national bodies. In consequence, workers in these trades were isolated and, because there had yet appeared no real machinery to make for successful collective bargaining, they quickly lost their solidarity. The depression of the seventies took a heavy toll of trade unionism; when it ended there were surviving only a half dozen national unions with a membership of less than 50,000.

Efforts to consolidate unions into a national confederation also were unsuccessful; the National Labor Union, the most important confederation, appeared in 1868 and by 1872 had disappeared. Its leadership was of the same reformist character that had sought to speak for the workers in the forties. Entering into politics as the National Labor Reform party, it spoke only with the tongue of agrarianism.

*Knights of Labor.* For about eight years—from 1878 to 1886—American labor had a spokesman. Through the Noble Order of the Knights of Labor, which became a powerful pressure group, workers were being urged to combine and to fight for improvement in working conditions and their release from the factory system. The Knights did not understand fully the benefits of trade unionism; rather, they accented cooperation and legislation. But they did articulate working-class needs and hopes; and they demonstrated that American workers could combine on a national scale.

The Knights of Labor had its beginnings in Philadelphia in 1869, when it appeared as a secret society made up of a handful of garment cutters. Its first leader was Uriah S. Stephens; its so-called local assemblies were organized on craft lines. As it penetrated into smaller communities, the assemblies became of a mixed character so that all producers—even small manufacturers—were welcomed into the fold. This, in fact, was the outstanding structural characteristic of the Knights:



it was "one-big-unionism" rather than "craft unionism" or "industrial unionism." Making an especial appeal to the unorganized and the unskilled—including women and Negroes—and possessing an effective ritual as a secret society, the Knights began to widen its influence.

In 1878 and 1879, it became a force to be reckoned with: for in these years it abandoned secrecy—largely at the prompting of the Catholic Church—set up its General Assembly, and chose Terence V. Powderly as its Grand Master Workman. From 1880 to 1886, the Order expanded enormously and in this latter year had 730,000 members.

But more and more the Knights was eschewing the tactics of a modern trade union movement. Powderly preached the doctrine of collaboration; gave his consent to strike activities only reluctantly; and never assisted the local assemblies in the establishment of strike funds or the payment of unemployment benefits. He stressed reform and utopianism rather than industrial struggle: the setting up of producers' cooperatives, government ownership of railroads, the abolition of national banks, and welfare legislation. As a pressure group, the Knights had considerable influence: it was instrumental in putting an end to the importation of foreign contract labor and in having established the office of the federal Commissioner of Labor. But it could not win strikes, and this led to an increasingly critical attitude on the part of the skilled craft workers. The Hay-

market Affair of 1886—with which the Order was not in any way associated—also tended to undermine its prestige.

*American Federation of Labor.* The tardy support of the eight-hour agitation by the Knights of Labor leadership bitterly antagonized the more advanced workers. The Federation of Organized Trades and Labor Unions, made up largely of the skilled crafts, had appeared in 1881. It had demanded a general strike on May 1, 1886, to force the acceptance of the eight-hour day. Radicals helped in the formation of eight-hour associations in all the large cities, and the general strike brought out more than 200,000 workers all over the land. This success, and the gaining of the eight-hour day by many workers, weakened the Knights and strengthened the American Federation of Labor (which took this name in 1886 and replaced the earlier federation).

Led by Samuel Gompers, its first president, the American Federation of Labor appealed only to the skilled crafts. It taught the need for friendly benefits, strike funds, and constant agitation; it stressed voluntarism—gains through its own efforts and without the intervention of government; and it led strikes and won them. By 1900, the craft unions affiliated with the Federation, instead of succumbing before the depression, had a membership of half a million. Labor now had its own militant leadership; and for a short time it was able to challenge the supremacy of America's industrial capitalists.

## 5. ISOLATIONIST AMERICA

With the end of the Civil War, the aggressive expansionism, which had been so characteristic of American relations with the outside world in the fifty years preceding, now seemed happily terminated. Apparently, the American people were content with their conquest of the continental domain and were only too willing to devote all their energies to its settlement. Isolation became not only the chief characteristic of foreign policy; it was also a

state of mind that the whole American people shared. The record of the years up to 1898 was not a distinguished one; but, at any rate, the United States had no designs on other peoples and it remained at peace with the world. Not that there were no voices raised calling upon the United States to fulfill its destiny and spread its message broadcast over the earth. But these counsels were of a sentimental nature. Another generation had to come to ma-

turity—the Mahans, Roosevelts, Lodges—before the American people were ready to embark on oversea adventures. American Presidents and their Secretaries of State were called upon to consider many problems. Some they handled with skill; in some they blundered badly. But, on balance, the United States emerged with the growing respect of all nations. We ended by being accepted as one of the Powers.

*United States and Latin America.* The first American Secretary of State to turn serious attention to Latin America was James G. Blaine, who held this post during March to November, 1881, in Garfield's administration. Blaine sought to employ the good offices of the United States for the purposes of preserving peace among the Latin American countries and to prevent foreign intervention. He was beginning to lay his plans for the meeting of a Pan American conference when Garfield's death led to his removal.

In 1889, once more in the State office, Blaine's scheme was carried out successfully. On October 2, 1889, there assembled at Washington the delegates from seventeen of the eighteen Latin American nations for the first Pan American Conference, with Blaine in the chair. The achievements of the conference were of no particular importance. It set up a Bureau of Information at Washington, which came to be called, subsequently, the Pan American Union; and it did talk, although without implementing these discussions, about the adoption of an arbitration convention. But it had created a pattern, and frequent meetings were to take place during the next half century. By the 1940s, so completely had the leadership of the United States been accepted, the nations of the Western Hemisphere were bound together in common programs of defense and political action.

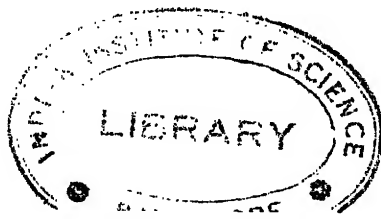
*United States and Great Britain.* During the seventies, eighties, and nineties, the United States was less successful in its relations with Great Britain. There were many irritations, and at one point both countries trembled on

the edge of war; yet the century's end was to see the two closer together than ever in their history.

There were many forces at work to prevent understanding. England's unfriendly attitude toward the North during the Civil War was not forgotten by postwar American politicians. The ceaseless agitation of the Irish Americans, living for the most part in the large cities and representing therefore influential political minorities, had its effect. "Twisting the lion's tail" became a common and safe diversion. America was isolationist and its schoolbooks, therefore, continued to harp on those earlier disagreements between Britain and the United States which had led to two wars and threatened many others. Nor did the toploftiness of the British travelers—who visited the United States briefly and returned to write unfriendly books—pass unnoticed. There was ill will on both sides of the ocean; and this found its public expression in four different controversies. Their settlement took a long time. We argued with the British over the control of an Isthmian canal; over our right to fish in Canadian waters; over the protection of seals in the Bering Sea; and over the Venezuelan boundary.

American Secretaries of State, worried over European interest in a Panama Canal, began to press England for a reconsideration of the Clayton-Bulwer Treaty of 1850. England stood pat; there were acrimonious exchanges; and it was not until 1902, when the Hay-Pauncefote treaty was ratified, that Britain definitely recognized United States primacy in the Western Hemisphere. Similarly, the two countries bickered over the right of Americans to fish in Canadian waters; in 1887 the President was given the power to close American ports to Canadian ships; and it was not until 1910 that a formal convention was written adjudicating this dispute.

In the settlement of the Bering Sea controversy, the United States came off with less success. The American government sought to prevent the indiscriminate slaughter of seals whose breeding grounds lay off the Alaskan



coast, but who also cruised far out into the waters of the Bering Sea. When Great Britain denied Blaine's claim in 1889 that the Bering Sea was a *mare clausum* and threatened to resist our revenue cutters, the time for arbitration had come. In 1893 an arbitral court found against the United States on every point. It was not until 1911 than an international convention was signed which put a stop to pelagic sealing for fifteen years; but by that time most of the damage had been done.

*Venezuela Dispute.* The Venezuelan boundary dispute almost precipitated a war between the two countries. The difficulty arose out of the long unsettled boundary between British Guiana and Venezuela. In 1887, diplomatic relations between Britain and Venezuela were broken off, and the good offices repeatedly tendered by the American State Department were refused. Suddenly the air was filled with war alarms. On December 17, 1895, Cleveland placed before Congress a series of notes that had been exchanged between Olney, his Secretary of State, and Salisbury, the English Foreign Minister; these indicated that both Powers had arrived at irreconcilable positions. Olney, in his note, gave a reading to the Monroe Doctrine that seriously upset Great Britain. He declared, first, that because of the Monroe Doctrine the United States must resist any designs on the territorial integrity of Venezuela; and second, that there was but one way of settling the difficulty—by peaceful arbitration. Olney went on to say that the continued presence of European powers in the Western Hemisphere must be regarded with disfavor by the United States. Why? Because the United States had now become a great Power and it was, therefore, "practically sovereign on this continent, and its fiat is law upon the subjects to which it confines its interposition."

President Cleveland, in submitting Olney's case to the American people, asked for Congressional approval for the establishment of an exclusive American agency to determine the true boundary between the disputants. Such a commission having done its work and ren-

dered its report, then said the President: ". . . it will in my opinion be the duty of the United States to resist by every means in its power as a willful aggression . . . the appropriation by Great Britain of any lands or the exercise of governmental jurisdiction over any territory which after investigation we have determined of right belongs to Venezuela."

A war party immediately appeared to back up the President and to demand force if necessary if England failed to submit to these terms. But wiser counsels in time prevailed. Englishmen, on their part, were learning that their country, embarked on many dubious adventures throughout the world, had no friends. And when the German Kaiser threatened to back up the Boers in their resistance to British expansionism in South Africa, the time had come for softer words. In January, 1896, Cleveland appointed his Venezuelan boundary commission, and the English cooperated fully. In the next year, a treaty was signed, referring the entire dispute to an arbitral tribunal; the arbitrators met in Paris in 1899, and they handed down a series of decisions which largely supported the original British contentions. Henceforth, relations between the two powers steadily improved.

*United States and the Pacific.* During this period, American interests in the Pacific were becoming increasingly the concern of American Secretaries of State. The Far West was turning its eyes across the wide expanses of the ocean as American missionary, shipping, and business groups were penetrating into the islands lying across it. We appeared in Samoa, challenging the effort of the Germans to establish their domination over the islands; and, finally, in December, 1899, we signed a treaty under which we obtained exclusive control of the island of Tutuila in the group. American insular possessions in the Pacific were further rounded out by the acquisition of Wake Island and Midway Island, both situated in the northern Pacific and valuable as naval stations.

*Hawaii.* More particularly, our concerns centered in the Hawaiian Islands, where Amer-

icans had appeared early in the nineteenth century as missionaries, traders, and whale fishermen. By the 1850s, the sons of these Americans were playing an important part in the economic life of the islands as sugar growers; and they had joined hands with the sugar refiners located on the Pacific Coast. In 1875, the Hawaiian sugar planters gained an important victory when a treaty of reciprocity was signed between the islands and the United States by which Hawaiian sugar was admitted free. In 1884, the treaty was renewed and, in return, Hawaii gave the United States exclusive rights to maintain a naval station at Pearl Harbor. But in 1890, Americans in Hawaii were thrown into a panic when all sugar was placed on the free list with, however, a bounty of two cents to American growers. In one year the price of Hawaiian sugar was cut in half. To American planters in the islands and American sugar refiners on the mainland, only one thing could save the distressed industry and that was American annexation.

There can be no doubt that many of the disorders which occurred in Hawaii during the 1870s and 1880s had the support of the small group of influential Americans who were seeking to force annexation upon the Hawaiian Government. In 1891, with the ascension to the throne of Queen Liliuokalani, who was suspicious of the foreigners, the whole controversy boiled over. The foreign interests in the islands, headed by Sanford B. Dole, the native-born son of an American missionary, organized a Committee of Safety and moved against the monarchy. The American minister recognized the new provisional government that was set up and a Hawaiian commission appeared in Washington in February, 1893, and proceeded to sign a treaty annexing Hawaii to the United States.

When Cleveland assumed the presidency, in the next month, suspecting the machinations of the American group, he withdrew the treaty from the Senate and sent his own commissioner to investigate the events leading to the revolution. In 1894, before Cleveland could act, a

republic was proclaimed in Hawaii and Dole was named its first president. Cleveland at once wrote a formal letter of recognition and in this he was quickly followed by the other great Powers. But efforts at annexation persisted, and, in June, 1897, McKinley, still fresh in office, ordered the signing of a new treaty of annexation with the island republic. Many influential Americans were averse to what smacked of an unsavory adventure in expansionism and they succeeded in having the treaty rejected in the Senate. In the midst of the War with Spain, however, Congress passed a joint resolution annexing the islands to the United States, and in July, 1898, Hawaii was American. In 1900, Hawaii received the full status of a territory and was given the right to establish a territorial legislature and a judicial machinery.

*The Territory of Alaska.* During the Civil War, the Russian Czar had been distinctly friendly to the Northern cause and when, in March, 1867, the Russian minister at Washington offered to sell the whole of Alaska to the United States, Secretary of State Seward accepted the proposal with alacrity. The purchase price was fixed at \$7,200,000 and, although there was a good deal of hostility in the Senate, the treaty was ratified. From 1867 to 1884, Alaska was popularly referred to as "Seward's Folly" and was consistently neglected by American political leaders and businessmen. No effort at the establishment of a formal government was made; the revenues derived from its seal fisheries were so small that the cost of policing the region seemed an extravagance to many. By the eighties, there were only 1,000 white residents in the whole country.

In 1884, however, Congress passed a law giving Alaska some rudiments of civil government. It was not until 1896, with the discovery of gold on the Canadian side of the boundary, that Americans began to troop into the region in large numbers. Soon gold was discovered in the area around Nome; and by the end of the decade more than 50,000 prospectors had

rushed into Alaska. The gold craze was followed by others—copper, coal, and oil—and Congress became interested. Beginning with 1898, Congress began to enact legislation covering such matters as transportation, homesteading, and civil and criminal codes. In the next decade, the opening up of Alaska's coal fields brought a number of powerful American corporations into the territory. It was not until 1912, however, that Alaska was given territorial status with a legislative assembly and civil officers of its own.

*The New Navy.* These decades also saw the United States emerging for the first time since the War of 1812 as an important naval Power. In line with its pacific intentions and its insularity, America refused to profit from the lessons it had learned in naval construction as a result of the Civil War, so that the American naval establishment languished.

But Blaine was concerned over America's long and undefended Pacific coast line, as he was interested in Panama and Hawaii; and he influenced fellow Cabinet members. Garfield's Secretary of the Navy called Congress's attention to the low estate to which the navy had sunk; and so did his successor. To this last Congress yielded and in 1883 it proceeded to authorize the construction of the first warships of the new American navy. The Secretary of Navy was given the funds with which to construct four steel vessels in American yards, Congress taking the precaution to provide that these vessels be outfitted "with full sail power and full steam power." These four warships,

which by our modern standards were little craft, the largest having a displacement of but 4,500 tons, formed the nucleus of that White Squadron which became more and more impressive with the succeeding years.

In 1886, the first armored warship was authorized; in 1890, America's initial first-class battleship was laid down. An interesting sidelight on the American psychology of the period was furnished by the designation of these new warships as "sea-going, coastline battleships." By 1900, the United States was a naval Power, with a fleet (launched, in building, or authorized) of fifteen battleships of the first class, one battleship of the second class, five armored cruisers, one armored ram, and a miscellany of smaller craft. The cost of this whole fleet was approximately \$275,000,000—not much more than twice the cost of a single present-day battleship. Only Great Britain's and France's fleets outranked America's as the twentieth century opened. And with Great Britain now friendly, the Atlantic and, to an extent, the Pacific as well, were being dominated by the American fleet.

These were some of the problems that concerned a growing America as it moved from a mercantile to an industrial economy, and as it took its place among the great nations of the world. The clouds that appeared from time to time on our horizons were small and were quickly dissipated; there were no hesitations or doubts as the American nation contemplated its future.

# THE AMERICAN MIND

## WALT WHITMAN

By 1871, WALT WHITMAN (1819-1892) was only beginning to be the object of a cult. Since the appearance of the first edition of *Leaves of Grass* in 1855, Whitman had seen the backwash of war in the Washington hospitals. He had known criticism, disregard, and admiration for his work. He lost his clerkship for the offense of having written an "indecent" book; and then he passed into comparative retirement, spending his time writing and observing the America that was moving through the war years into the Gilded Age.

In *Democratic Vistas* (1871), Whitman gives his view of that transitional period. Three elements went to make up his democratic faith: the Jeffersonian version of the individualistic philosophy of the Enlightenment; the notion of comradeship; and the transcendentalism of Emerson. Whitman was an individualist, but to this he added the notion of "merging." The merging of selves is elevated by Whitman into the union of the Ego in the All; and, in keeping with the tradition of romantic idealism, all history is seen as the progressive realization of an Idea—in the case of Whitman, "the idea of perfect and free individuals."

*Democratic Vistas* incorporates many of these notions, but at the same time that it expresses its confidence in America, it calls attention to the responsibilities of Americans. These United States are destined to surmount the gorgeous feudal past, "or else prove the most tremendous failure of all time." There may be little evidence of greatness in the present, but America belongs to the future and in that future Whitman will have faith whether immediate fact justifies that or not.

That attitude was entirely natural in Whit-

man: he had been young in the experimental thirties and forties; his mind had been shaped by the experience as well as the ebullience of those years. He had seen the United States mature industrially as it pushed westward to the sea; he had seen the nation come through a great war unharmed.

American democracy had been successful on the material plane; what it lacked was moral bottom. And that could be provided only by a true literature, for Whitman accepted the idea of the poet as prophet. Of all the arts, literature alone still influences men's actions and above all countries these United States needed a sound common literature to nurture unity. Nothing in the existing American literature answered that need, in Whitman's opinion. America grows and prospers, puts down enemies and conquers a continent, yet it will not see that it is in itself "the final authority and reliance." The development of a common literature alone would not suffice, however. The United States must have a more general diffusion of the ownership of property if true democracy was to be realized, for the Union would be knit "by the safety and endurance of its middling property owners."

Whitman did not see his world through a pink mist; he was aware of danger. American political figures were small men, by and large. Individuals were self-seeking and communities corrupt; the full fruition of democracy was in the future. Yet democracy was working and there was joy in being tossed in "the brave turmoil of these times."

The selection here reprinted is from *Democratic Vistas* (New York, 1871); the notes are by Whitman himself.

*Democratic Vistas*

BY WALT WHITMAN

IT MAY BE CLAIM'D, (and I admit the weight of the claim,) that common and general worldly prosperity, and a populace well-to-do, and with all life's material comforts, is the main thing, and is enough. It may be argued that our republic is, in performance, really enacting to-day the grandest arts, poems, &c., by beating up the wilderness into fertile farms, and in her railroads, ships, machinery, &c. And it may be ask'd, Are these not better, indeed, for America, than any utterances even of greatest rhapsode, artist, or literatus?

I too hail those achievements with pride and joy: then answer that the soul of man will not with such only—nay, not with such at all—be finally satisfied; but needs what, (standing on these and on all things, as the feet stand on the ground,) is address'd to the loftiest, to itself alone.

Out of such considerations, such truths, arises for treatment in these *Vistas* the important question of character, of an American stock-personality, with literatures and arts for outlets and return-expressions, and, of course, to correspond, within outlines common to all. To these, the main affair, the thinkers of the United States, in general so acute, have either given feeblest attention, or have remain'd, and remain, in a state of somnolence.

For my part, I would alarm and caution even the political and business reader, and to the utmost extent, against the prevailing delusion that the establishment of free political institutions, and plentiful intellectual smartness, with general good order, physical plenty, industry, &c., (desirable and precious advantages as they all are,) do, of themselves, determine and yield to our experiment of democracy the fruitage of success. With such advantages at present fully, or almost fully, possess'd—the Union just issued, victorious, from the struggle with the only foes it need ever fear, (namely, those within itself, the interior ones,) and with unprecedented materialistic advancement—society, in these States, is canker'd, crude, superstitious, and rotten. Political, or law-made society is, and private, or voluntary society, is also. In any vigor, the element of the moral conscience, the most important, the verteber to State or man, seems to me either entirely lacking, or seriously enfeebled or ungrown.

I say we had best look our times and lands searchingly in the face, like a physician diagnosing some deep disease. Never was there, perhaps, more hollowness at heart than at present, and here

in the United States. Genuine belief seems to have left us. The underlying principles of the States are not honestly believ'd in, (for all this hectic glow, and these melo-dramatic screamings,) nor is humanity itself believ'd in. What penetrating eye does not everywhere see through the mask? The spectacle is appalling. We live in an atmosphere of hypocrisy throughout. The men believe not in the women, nor the women in the men. A scornful superciliousness rules in literature. The aim of all the *littérateurs* is to find something to make fun of. A lot of churches, sects, &c., the most dismal phantasms I know, usurp the name of religion. Conversation is a mass of badinage. From deceit in the spirit, the mother of all false deeds, the offspring is already incalculable. An acute and candid person, in the revenue department in Washington, who is led by the course of his employment to regularly visit the cities, north, south and west, to investigate frauds, has talk'd much with me about his discoveries. The depravity of the business classes of our country is not less than has been supposed, but infinitely greater. The official services of America, national, state, and municipal, in all their branches and departments, except the judiciary, are saturated in corruption, bribery, falsehood, mal-administration; and the judiciary is tainted. The great cities reek with respectable as much as non-respectable robbery and scoundrelism. In fashionable life, flippancy, tepid amours, weak infidelity, small aims, or no aims at all, only to kill time. In business, (this all-devouring modern word, business,) the one sole object is, by any means, pecuniary gain. The magician's serpent in the fable ate up all the other serpents; and money-making is our magician's serpent, remaining to-day sole master of the field. The best class we show, is but a mob of fashionably dress'd speculators and vulgarians. True, indeed, behind this fantastic farce, enacted on the visible stage of society, solid things and stupendous labors are to be discover'd, existing crudely and going on in the background, to advance and tell themselves in time. Yet the truths are none the less terrible. I say that our New World democracy, however great a success in uplifting the masses out of their sloughs, in materialistic development, products, and in a certain highly-deceptive superficial popular intellectuality, is, so far, an almost complete failure in its social aspects, and in really grand religious, moral, literary, and esthetic results. In



vain do we march with unprecedented strides to empire so colossal, outvying the antique, beyond Alexander's, beyond the proudest sway of Rome. In vain have we annex'd Texas, California, Alaska, and reached north for Canada and south for Cuba. It is as if we were somehow being endow'd with a vast and more and more thoroughly-appointed body, and then left with little or no soul.

Let me illustrate further, as I write, with current observations, localities, &c. The subject is important, and will bear repetition. After an absence, I am now again (September, 1870) in New York city and Brooklyn, on a few weeks' vacation. The splendor, picturesqueness, and oceanic amplitude and rush of these great cities, the unsurpass'd situation, rivers and bay, sparkling sea-tides, costly and lofty new buildings, façades of marble and iron, of original grandeur and elegance of design, with the masses of gay color, the preponderance of white and blue, the flags flying, the endless ships, the tumultuous streets, Broadway, the heavy, low, musical roar, hardly ever intermitted, even at night; the jobbers' houses, the rich shops, the wharves, the great Central Park, and the Brooklyn Park of hills, (as I wander among them this beautiful fall weather, musing, watching, absorbing)—the assemblages of the citizens in their groups, conversations, trades, evening amusements, or along the by-quarters—these, I say, and the like of these, completely satisfy my senses of power, fulness, motion, &c., and give me, through such senses and appetites, and through my esthetic conscience, a continued exaltation and absolute fulfilment. Always and more and more, as I cross the East and North rivers, the ferries, or with the pilots in their pilot-houses, or pass an hour in Wall street, or the gold exchange, I realize, (if we must admit such partialisms,) that not Nature alone is great in her fields of freedom and the open air, in her storms, the shows of night and day, the mountains, forests, seas—but in the artificial, the work of man too is equally great—in this profusion of teeming humanity—in these ingenuities, streets, goods, houses, ships—these hurrying, feverish, electric crowds of men, their complicated business genius, (not least among the geniuses,) and all this mighty, many-threaded wealth and industry concentrated here.

But sternly discarding, shutting our eyes to the glow and grandeur of the general superficial effect, coming down to what is of the only real importance, Personalities, and examining minutely, we question, we ask, Are there, indeed, *men* here worthy the name? Are there athletes? Are there perfect women, to match the generous material luxuriance? Is there a pervading atmos-

phere of beautiful manners? Are there crops of fine youths, and majestic old persons? Are there arts worthy freedom and a rich people? Is there a great moral and religious civilization—the only justification of a great material one? Confess that to severe eyes, using the moral microscope upon humanity, a sort of dry and flat Sahara appears, these cities, crowded with petty grotesques, malformations, phantoms, playing meaningless antics. Confess that everywhere, in shop, street, church, theatre, bar-room, official chair, are pervading flippancy and vulgarity, low cunning, infidelity—everywhere the youth puny, impudent, foppish, prematurely ripe—everywhere an abnormal libidinousness, unhealthy forms, male, female, painted, padded, dyed, chignon'd, muddy complexions, bad blood, the capacity for good motherhood deceasing or deceas'd, shallow notions of beauty, with a range of manners, or rather lack of manners, (considering the advantages enjoy'd,) probably the meanest to be seen in the world.<sup>1</sup>

Of all this, and these lamentable conditions, to breathe into them the breath recuperative of sane and heroic life, I say a new founded literature, not merely to copy and reflect existing surfaces, or pander to what is called taste—not only to amuse, pass away time, celebrate the beautiful, the refined, the past, or exhibit technical, rhythmic, or grammatical dexterity—but a literature underlying life, religious, consistent with science, handling the elements and forces with competent power, teaching and training men—and, as perhaps the most precious of its results, achieving the entire redemption of woman out of these incredible holds and webs of silliness, millinery, and every kind of dyspeptic depletion—and thus insuring to the States a strong and sweet Female Race, a race of perfect Mothers—is what is needed.

<sup>1</sup> Of these rapidly-sketch'd hiatuses, the two which seem to me most serious are, for one, the condition, absence, or perhaps the singular abeyance, of moral conscientious fibre all through American society; and, for another, the appalling depletion of women in their powers of sane athletic maternity, their crowning attribute, and ever making the woman, in loftiest spheres, superior to the man.

I have sometimes thought, indeed, that the sole avenue and means of a reconstructed sociology depended, primarily, on a new birth, elevation, expansion, invigoration of woman, affording, for races to come, (as the conditions that antedate birth are indispensable,) a perfect motherhood. Great, great, indeed, far greater than they know, is the sphere of women. But doubtless the question of such new sociology all goes together, includes many varied and complex influences and premises, and the man as well as the woman, and the woman as well as the man.

And now, in the full conception of these facts and points, and all that they infer, pro and con—with yet unshaken faith in the elements of the American masses, the composites, of both sexes, and even consider'd as individuals—and ever recognizing in them the broadest bases of the best literary and esthetic appreciation—I proceed with my speculations, *Vistas*.

First, let us see what we can make out of a brief, general, sentimental consideration of political democracy, and whence it has arisen, with regard to some of its current features, as an aggregate, and as the basic structure of our future literature and authorship. We shall, it is true, quickly and continually find the origin-idea of the singleness of man, individualism, asserting itself, and cropping forth, even from the opposite ideas. But the mass, or lump character, for imperative reasons, is to be even carefully weigh'd, borne in mind, and provided for. Only from it, and from its proper regulation and potency, comes the other, comes the chance of individualism. The two are contradictory, but our task is to reconcile them.<sup>2</sup>

The political history of the past may be summ'd up as having grown out of what underlies the words, order, safety, caste, and especially out of the need of some prompt deciding authority, and of cohesion at all cost. Leaping time, we come to the period within the memory of people now living, when, as from some lair where they had slumber'd long, accumulating wrath, sprang up and are yet active, (1790, and on even to the present, 1870,) those noisy eruptions, destructive iconoclasms, a fierce sense of wrongs, amid which moves the form, well known in modern history, in the old world, stain'd with much blood, and mark'd by savage reactionary clamors and demands. These bear, mostly, as on one inclosing point of need.

For after the rest is said—after the many time-honor'd and really true things for subordination, experience, rights of property; &c., have been listen'd to and acquiesced in—after the valuable and well-settled statement of our duties and relations in society is thoroughly conn'd over and ex-

hausted—it remains to bring forward and modify everything else with the idea of that Something a man is, (last precious consolation of the drudging poor,) standing apart from all else, divine in his own right, and a woman in hers, sole and un-touchable by any canons of authority, or any rule derived from precedent, state-safety, the acts of legislatures, or even from what is called religion, modesty, or art. The radiation of this truth is the key of the most significant doings of our immediately preceding three centuries, and has been the political genesis and life of America. Advancing visibly, it still more advances invisibly. Underneath the fluctuations of the expressions of society, as well as the movements of the politics of the leading nations of the world, we see steadily pressing ahead and strengthening itself, even in the midst of immense tendencies toward aggregation, this image of completeness in separatism, of individual personal dignity, of a single person, either male or female, characterized in the main, not from extrinsic acquirements or position, but in the pride of himself or herself alone; and, as an eventual conclusion and summing up, (or else the entire scheme of things is aimless, a cheat, a crash,) the simple idea that the last, best dependence is to be upon humanity itself, and its own inherent, normal, full-grown qualities, without any superstitious support whatever. This idea of perfect individualism it is indeed that deepest tinges and gives character to the idea of the aggregate. For it is mainly or altogether to serve independent separatism that we favor a strong generalization, consolidation. As it is to give the best vitality and freedom to the rights of the States, (every bit as important as the right of nationality, the union,) that we insist on the identity of the Union at all hazards.

The purpose of democracy—supplanting old belief in the necessary absoluteness of establish'd dynastic rulership, temporal, ecclesiastical, and scholastic, as furnishing the only security against chaos, crime, and ignorance—is, through many transmigrations, and amid endless ridicules, arguments, and ostensible failures, to illustrate, at all hazards, this doctrine or theory that man, properly train'd in sanest, highest freedom, may and must become a law, and series of laws, unto himself, surrounding and providing for, not only his own personal control, but all his relations to other individuals, and to the State; and that, while other theories, as in the past histories of nations, have proved wise enough, and indispensable perhaps for their conditions, *this*, as matters now stand in our civilized world, is the only scheme worth working from, as warranting results like those of

<sup>2</sup> The question hinted here is one which time only can answer. Must not the virtue of modern Individualism, continually enlarging, usurping all, seriously affect, perhaps keep down entirely, in America, the like of the ancient virtue of Patriotism, the fervid and absorbing love of general country? I have no doubt myself that the two will merge, and will mutually profit and brace each other, and that from them a greater product, a third, will arise. But I feel that at present they and their oppositions form a serious problem and paradox in the United States.

Nature's laws, reliable, when once establish'd, to carry on themselves.

The argument of the matter is extensive, and, we admit, by no means all on one side. What we shall offer will be far, far from sufficient. But while leaving unsaid much that should properly even prepare the way for the treatment of this many-sided question of political liberty, equality, or republicanism—leaving the whole history and consideration of the feudal plan and its products, embodying humanity, its politics and civilization, through the retrospect of past time, (which plan and products, indeed, make up all of the past, and a large part of the present)—leaving unanswered, at least by any specific and local answer, many a well-wrought argument and instance, and many a conscientious declamatory cry and warning—as, very lately, from an eminent and venerable person abroad<sup>2</sup>—things, problems, full of doubt, dread, suspense, (not new to me, but old occupiers of many an anxious hour in city's din, or night's silence,) we still may give a page or so, whose drift is opportune. Time alone can finally answer these things. But as a substitute in passing, let us, even if fragmentarily, throw forth a short direct or indirect suggestion of the premises of that other plan, in the new spirit, under the new forms, started here in our America.

As to the political section of Democracy, which introduces and breaks ground for further and vaster sections, few probably are the minds, even in these republican States, that fully comprehend the aptness of that phrase, "THE GOVERNMENT OF THE PEOPLE, BY THE PEOPLE, FOR THE PEOPLE," which we inherit from the lips of Abraham Lincoln; a formula whose verbal shape is homely wit, but whose scope includes both the totality and all minutiae of the lesson.

The People! Like our huge earth itself, which, to ordinary scansion, is full of vulgar contradictions and offence, man, viewed in the lump, displeases, and is a constant puzzle and affront to the merely educated classes. The rare, cosmical, artist-mind, lit with the Infinite, alone confronts his

<sup>2</sup> "SHOOTING NIAGARA."—I was at first roused to much anger and abuse by this essay from Mr. Carlyle, so insulting to the theory of America—but happening to think afterwards how I had more than once been in the like mood, during which his essay was evidently cast, and seen persons and things in the same light, (indeed some might say there are signs of the same feeling in these Vistas)—I have since read it again, not only as a study, expressing as it does certain judgments from the highest feudal point of view, but have read it with respect as coming from an earnest soul, and as contributing certain sharp-cutting metallic grains, which, if not gold or silver, may be good, hard, honest iron.

manifold and oceanic qualities—but taste, intelligence and culture, (so-called,) have been against the masses, and remain so. There is plenty of glamour about the most damnable crimes and hoggish meannesses, special and general, of the feudal and dynastic world over there, with its *personnel* of lords and queens and courts, so well-dress'd and so handsome. But the People are ungrammatical, untidy, and their sins gaunt and ill-bred.

Literature, strictly consider'd, has never recognized the People, and, whatever may be said, does not to-day. Speaking generally, the tendencies of literature, as hitherto pursued, have been to make mostly critical and querulous men. It seems as if, so far, there were some natural repugnance between a literary and professional life, and the rude rank spirit of the democracies. There is, in later literature, a treatment of benevolence, a charity business, rife enough it is true; but I know nothing more rare, even in this country, than a fit scientific estimate and reverent appreciation of the People—of their measureless wealth of latent power and capacity, their vast, artistic contrasts of lights and shades—with, in America, their entire reliability in emergencies, and a certain breadth of historic grandeur, of peace or war, far surpassing all the vaunted samples of book-heroes, or any *haut ton* coteries, in all the records of the world.

The movements of the late secession war, and their results, to any sense that studies well and comprehends them, show that popular democracy, whatever its faults and dangers, practically justifies itself beyond the proudest claims and wildest hopes of its enthusiasts. Probably no future age can know, but I well know, how the gist of this fiercest and most resolute of the world's war-like contentions resided exclusively in the unnamed, unknown rank and file; and how the brunt of its labor of death was, to all essential purposes, volunteer'd. The People, of their own choice, fighting, dying for their own idea, insolently attack'd by the secession-slave-power, and its very existence imperil'd. Descending to detail, entering any of the armies, and mixing with the private soldiers, we see and have seen august spectacles. We have seen the alacrity with which the American-born populace, the peaceablest and most good-natured race in the world, and the most personally independent and intelligent, and the least fitted to submit to the irksomeness and exasperation of regimental discipline, sprang, at the first tap of the drum, to arms—not for gain, nor even glory, nor to repel invasion—but for an emblem, a mere abstraction—for the life, *the*

*safety of the flag.* We have seen the unequal'd docility and obedience of these soldiers. We have seen them tried long and long by hopelessness, mismanagement, and by defeat; have seen the incredible slaughter toward or through which the armies (as at first Fredericksburg, and afterward at the Wilderness,) still unhesitatingly obey'd orders to advance. We have seen them in trench, or crouching behind breastwork, or tramping in deep mud; or amid pouring rain or thick-falling snow, or under forced marches in hottest summer (as on the road to get to Gettysburg)—vast suffocating swarms, divisions, corps, with every single man so grimed and black with sweat and dust, his own mother would not have known him—his clothes all dirty, stain'd and torn, with sour, accumulated sweat for perfume—many a comrade, perhaps a brother, sun-struck, staggering out, dying, by the roadside, of exhaustion—yet the great bulk bearing steadily on, cheery enough, hollow-bellied from hunger, but sinewy with unconquerable resolution.

We have seen this race proved by wholesale by drearier, yet more fearful tests—the wound, the amputation, the shatter'd face or limb, the slow hot fever, long impatient anchorage in bed, and all the forms of maiming, operation and disease. Alas! America have we seen, though only in her early youth, already to hospital brought. There have we watch'd these soldiers, many of them only boys in years—mark'd their decorum, their religious nature and fortitude, and their sweet affection. Wholesale, truly. For at the front, and through the camps, in countless tents, stood the regimental, brigade and division hospitals; while everywhere amid the land, in or near cities, rose clusters of huge, white-wash'd, crowded, one-story wooden barracks; and there ruled agony with bitter scourge, yet seldom brought a cry; and there stalk'd death by day and night along the narrow aisles between the rows of cots, or by the blankets on the ground, and touch'd lightly many a poor sufferer, often with blessed, welcome touch.

I know not whether I shall be understood, but I realize that it is finally from what I learn'd personally mixing in such scenes that I am now penning these pages. One night in the gloomiest period of the war, in the Patent-office hospital in Washington city, as I stood by the bedside of a Pennsylvania soldier, who lay, conscious of quick approaching death, yet perfectly calm, and with noble, spiritual manner, the veteran surgeon, turning aside, said to me, that though he had witness'd many, many deaths of soldiers, and had been a worker at Bull Run, Antietam, Fredericks-

burg, &c., he had not seen yet the first case of man or boy that met the approach of dissolution with cowardly qualms or terror. My own observation fully bears out the remark.

What have we here, if not, towering above all talk and argument, the plentifully-supplied, last-needed proof of democracy, in its personalities? Curiously enough, too, the proof on this point comes, I should say, every bit as much from the south, as from the north. Although I have spoken only of the latter, yet I deliberately include all. Grand, common stock! to me the accomplish'd and convincing growth, prophetic of the future; proof undeniable to sharpest sense, of perfect beauty, tenderness and pluck, that never feudal lord, nor Greek, nor Roman breed, yet rival'd. Let no tongue ever speak in disparagement of the American races, north or south, to one who has been through the war in the great army hospitals.

Meantime, general humanity, (for to that we return, as, for our purposes, what it really is, to bear in mind,) has always, in every department, been full of perverse maleficence, and is so yet. In downcast hours the soul thinks it always will be—but soon recovers from such sickly moods. I myself see clearly enough the crude, defective streaks in all the strata of the common people; the specimens and vast collections of the ignorant, the credulous, the unfit and uncouth, the incapable, and the very low and poor. The eminent person just mention'd sneeringly asks whether we expect to elevate and improve a nation's politics by absorbing such morbid collections and qualities therein. The point is a formidable one, and there will doubtless always be numbers of solid and reflective citizens who will never get over it. Our answer is general, and is involved in the scope and letter of this essay. We believe the ulterior object of political and all other government, (having, of course, provided for the police, the safety of life, property, and for the basic statute and common law, and their administration, always first in order,) to be among the rest, not merely to rule, to repress disorder, &c., but to develop, to open up to cultivation, to encourage the possibilities of all beneficent and manly outcroppage, and of that aspiration for independence, and the pride and self-respect latent in all characters. (Or, if there be exceptions, we cannot, fixing our eyes on them alone, make theirs the rule for all.)

I say the mission of government, henceforth, in civilized lands, is not repression alone, and not authority alone, not even of law, nor by that favorite standard of the eminent writer, the rule of the best men, the born heroes and captains of the race, (as if such ever, or one time out of a hun-

dred, get into the big places, elective or dynastic)—but higher than the highest arbitrary rule, to train communities through all their grades, beginning with individuals and ending there again, to rule themselves. What Christ appear'd for in the moral-spiritual field for human-kind, namely, that in respect to the absolute soul, there is in the possession of such by each single individual, something so transcendent, so incapable of gradations, (like life,) that, to that extent, it places all beings on a common level, utterly regardless of the distinctions of intellect, virtue, station, or any height or lowliness whatever—is tallied in like manner, in this other field, by democracy's rule that men, the nation, as a common aggregate of living identities, affording in each a separate and complete subject for freedom, worldly thrift and happiness, and for a fair chance for growth, and for protection in citizenship, &c., must, to the political extent of the suffrage or vote, if no further, be placed, in each and in the whole, on one broad, primary, universal, common platform.

The purpose is not altogether direct; perhaps it is more indirect. For it is not that democracy is of exhaustive account, in itself. Perhaps, indeed, it is, (like Nature,) of no account in itself. It is that, as we see, it is the best, perhaps only, fit and full means, formulator, general caller-forth, trainer, for the million, not for grand material personalities only, but for immortal souls. To be a voter with the rest is not so much; and this, like every institute, will have its imperfections. But to become an enfranchised man, and now, impediments removed, to stand and start without humiliation, and equal with the rest; to commence, or have the road clear'd to commence, the grand experiment of development, whose end, (perhaps requiring several generations,) may be the forming of a full-grown man or woman—that *is* something. To ballast the State is also secured, and in our times is to be secured, in no other way.

We do not, (at any rate I do not,) put it either on the ground that the People, the masses, even the best of them, are, in their latent or exhibited qualities, essentially sensible and good—nor on the ground of their rights; but that good or bad, rights or no rights, the democratic formula is the only safe and preservative one for coming times. We endow the masses with the suffrage for their own sake, no doubt; then, perhaps still more, from another point of view, for community's sake. Leaving the rest to the sentimentalists, we present freedom as sufficient in its scientific aspect, cold as ice, reasoning, deductive, clear and passionless as crystal.

Democracy too is law, and of the strictest,

amplest kind. Many suppose, (and often in its own ranks the error,) that it means a throwing aside of law, and running riot. But, briefly, it is the superior law, not alone that of physical force, the body, which, adding to, it supersedes with that of the spirit. Law is the unshakable order of the universe forever; and the law over all, and law of laws, is the law of successions; that of the superior law, in time, gradually supplanting and overwhelming the inferior one. (While, for myself, I would cheerfully agree—first covenanting that the formative tendencies shall be administer'd in favor, or at least not against it, and that this reservation be closely construed—that until the individual or community show due signs, or be so minor and fractional as not to endanger the State, the condition of authoritative tutelage may continue, and self-government must abide its time.) Nor is the esthetic point, always an important one, without fascination for highest aiming souls. The common ambition strains for elevations, to become some privileged exclusive. The master sees greatness and health in being part of the mass; nothing will do as well as common ground. Would you have in yourself the divine, vast, general law? Then merge yourself in it.

And, topping democracy, this most alluring record, that it alone can bind, and ever seeks to bind, all nations, all men, of however various and distant lands, into a brotherhood, a family. It is the old, yet ever-modern dream of earth, out of her eldest and her youngest, her fond philosophers and poets. Not that half only, individualism, which isolates. There is another half, which is adhesiveness or love, that fuses, ties and aggregates, making the races comrades, and fraternizing all. Both are to be vitalized by religion, (sole worthiest elevator of man or State,) breathing into the proud, material tissues, the breath of life. For I say at the core of democracy, finally, is the religious element. All the religions, old and new, are there. Nor may the scheme step forth, clothed in resplendent beauty and command, till these, bearing the best, the latest fruit, the spiritual, shall fully appear. . . .

The true gravitation-hold of liberalism in the United States will be a more universal ownership of property, general homesteads, general comfort—a vast, intertwining reticulation of wealth. As the human frame, or, indeed, any object in this manifold universe, is best kept together by the simple miracle of its own cohesion, and the necessity, exercise and profit thereof, so a great and varied nationality, occupying millions of square miles, were firmest held and knit by the principle of the safety and endurance of the aggregate of its

middle property owners. So that, from another point of view, ungracious as it may sound, and a paradox after what we have been saying, democracy looks with suspicious, ill-satisfied eye upon the very poor, the ignorant, and on those out of business. She asks for men and women with occupations, well-off, owners of houses and acres, and with cash in the bank—and with some cravings for literature, too; and must have them, and hastens to make them. Luckily, the seed is already well-sown, and has taken ineradicable root.<sup>4</sup>

Huge and mighty are our days, our republican lands—and most in their rapid shiftings, their

<sup>4</sup> For fear of mistake, I may as well distinctly specify, as cheerfully included in the model and standard of these Vistas, a practical, stirring, worldly, money-making, even materialistic character. It is undeniable that our farms, stores, offices, dry-goods, coal and groceries, enginery, cash-accounts, trades, earnings, markets, &c., should be attended to in earnest, and actively pursued, just as if they had a real and permanent existence. I perceive clearly that the extreme business energy, and this almost maniacal appetite for wealth prevalent in the United States, are parts of amelioration and progress, indispensably needed to prepare the very results I demand. My theory includes riches, and the getting of riches, and the amplest products, power, activity, inventions, movements, &c. Upon them, as upon substrata, I raise the edifice design'd in these Vistas.

changes, all in the interest of the cause. . . .

Political democracy, as it exists and practically works in America, with all its threatening evils, supplies a training-school for making first-class men. It is life's gymnasium, not of good only, but of all. We try often, though we fall back often. A brave delight, fit for freedom's athletes, fills these arenas, and fully satisfies, out of the action in them, irrespective of success. Whatever we do not attain, we at any rate attain the experiences of the fight, the hardening of the strong campaign, and throb with currents of attempt at least. Time is ample. Let the victors come after us. Not for nothing does evil play its part among us. Judging from the main portions of the history of the world, so far, justice is always in jeopardy, peace walks amid hourly pitfalls, and of slavery, misery, meanness, the craft of tyrants and the credulity of the populace, in some of their protean forms, no voice can at any time say, They are not. The clouds break a little, and the sun shines out—but soon and certain the lowering darkness falls again, as if to last forever. Yet is there an immortal courage and prophecy in every sane soul that cannot, must not, under any circumstances, capitulate. *Vive*, the attack—the perennial assault! *Vive*, the unpopular cause—the spirit that audaciously aims—the never-abandon'd efforts, pursued the same amid opposing proofs and precedents. . . .

## HENRY GEORGE

PROPER CURRENCY POLICIES might secure national prosperity according to some reasoning, but Henry George (1839-1897) was convinced that more fundamental factors must be considered before government policy touched the springs of economic action. George had grown up in a Philadelphia mechanic's household in the years following the panic of 1837. He had learned the printer's trade and then gone to sea. In California, he saw the swift passing of a seller's market for labor as land was bought up and the railroads brought an increased supply of workers into the state. His own experience in trying to make a California newspaper successful without the service of the Associated Press set George thinking about monopoly; his observation of conditions in California pushed him further along that path.

In a pamphlet called *Our Land and Land Policy* (1871), George expressed his view of

the causes for the decline of labor's position on the Pacific Coast. He left for the East, where he arrived in time to experience the first shock of the panic of 1873 and the first years of the depression that followed. Not long after the riotous outbreaks on the nation's railroads in 1877, George set about the task of broadening his earlier work on the causes of society's present and evident ills. *Progress and Poverty* was completed in March, 1879, and published at the turn of the year, after George himself had paid for making the plates. Though no publisher would risk bringing the book out, *Progress and Poverty* went through four editions between January and November, 1880, and soon joined *Uncle Tom's Cabin* on the brief list of American books which have had genuine international influence. Through his book and his work as a correspondent in Ireland during the disorders of the early eighties, George became widely

known in labor circles. When court action against union activity—the conviction for conspiracy of a group of waiters for boycotting an employer after an unsuccessful strike—sent the New York labor movement into politics in 1886, Henry George became labor's candidate for mayor. The fact that it needed the best available Democrat, Abram S. Hewitt, and the united opposition of the press to beat George for that office, encouraged him to become head of a United Labor party in the next campaign. Thereafter, he was a constantly recurring figure in insurgent political movements.

In *Progress and Poverty*, George discovered the classical theory of rent for himself and made it the basis of a scheme for social regeneration. Since land is a natural monopoly, every increase in knowledge and population increases rent at the expense of wages and interest. As land is necessary to the production of wealth, the control of land is equivalent to the control of "all the fruits of labor save enough to allow labor to exist." Speculation in land produces depression, makes the rich richer and the poor poorer, and is responsible for the fact that each improvement in production means an increase in human misery.

Nothing less than an end to the monopoly

of land can halt the inevitable growth of poverty as the world progresses. Land must be recognized as common property. For this, there need be no violent expropriation; nothing is required beyond a reform in fiscal policy, the abolition of all taxes save a levy on economic rent. Since it is security in the possession of improvements rather than security of complete ownership which makes men develop land, there is no need to fear that the introduction of the single tax would hinder enterprise. Only speculation would be checked. There would be no need for mechanics to strike if the single tax was in operation, for they would have a recourse to farming if their trades did not pay; there would be no demand for protective tariffs or other modes of government intervention in economic life. Once the community had recaptured the value it had created, men could be left to mind their own concerns. For Henry George had as much dislike of the "State superstition" as William Graham Sumner himself: "Whatever savors of regulation and restriction is in itself bad," George wrote. "Society is an organism not a machine."

The selections are from the 1911 edition of *Progress and Poverty* and are published by permission of Doubleday and Company, Inc.

## *Progress and Poverty*

BY HENRY GEORGE

### INTRODUCTORY: THE PROBLEM

THE PRESENT CENTURY has been marked by a prodigious increase in wealth-producing power. The utilization of steam and electricity, the introduction of improved processes and labor-saving machinery, the greater subdivision and grander scale of production, the wonderful facilitation of exchanges, have multiplied enormously the effectiveness of labor.

At the beginning of this marvelous era it was natural to expect, and it was expected, that labor-saving inventions would lighten the toil and improve the condition of the laborer; that the enormous increase in the power of producing wealth would make real poverty a thing of the past. Could a man of the last century—a Franklin or

a Priestley—have seen, in a vision of the future, the steamship taking the place of the sailing vessel, the railroad train of the wagon, the reaping machine of the scythe, the threshing machine of the flail; could he have heard the throb of the engines that in obedience to human will, and for the satisfaction of human desire, exert a power greater than that of all the men and all the beasts of burden of the earth combined; could he have seen the forest tree transformed into finished lumber—into doors, sashes, blinds, boxes or barrels, with hardly the touch of a human hand; the great workshops where boots and shoes are turned out by the case with less labor than the old-fashioned cobbler could have put on a sole; the factories where, under the eye of a girl, cotton becomes cloth faster than hundreds of stal-



ward weavers could have turned it out with their handlooms; could he have seen steam hammers shaping mammoth shafts and mighty anchors, and delicate machinery making tiny watches; the diamond drill cutting through the heart of the rocks, and coal oil sparing the whale; could he have realized the enormous saving of labor resulting from improved facilities of exchange and communication—sheep killed in Australia eaten fresh in England, and the order given by the London banker in the afternoon executed in San Francisco in the morning of the same day; could he have conceived of the hundred thousand improvements which these only suggest, what would he have inferred as to the social condition of mankind?

It would not have seemed like an inference; further than the vision went it would have seemed as though he saw; and his heart would have leaped and his nerves would have thrilled, as one who from a height beholds just ahead of the thirst-stricken caravan the living gleam of rustling woods and the glint of laughing waters. Plainly, in the sight of the imagination, he would have beheld these new forces elevating society from its very foundations, lifting the very poorest above the possibility of want, exempting the very lowest from anxiety for the material needs of life; he would have seen these slaves of the lamp of knowledge taking on themselves the traditional curse, these muscles of iron and sinews of steel making the poorest laborer's life a holiday, in which every high quality and noble impulse could have scope to grow.

And out of these bounteous material conditions he would have seen arising, as necessary sequences, moral conditions realizing the golden age of which mankind have always dreamed. Youth no longer stunted and starved; age no longer harried by avarice; the child at play with the tiger; the man with the muck-rake drinking in the glory of the stars! Foul things fled, fierce things tame; discord turned to harmony! For how could there be greed where all had enough? How could the vice, the crime, the ignorance, the brutality, that spring from poverty and the fear of poverty, exist where poverty had vanished? Who should crouch where all were freemen; who oppress where all were peers?

More or less vague or clear, these have been the hopes, these the dreams born of the improvements which give this wonderful century its pre-eminence. They have sunk so deeply into the popular mind as radically to change the currents of thought, to recast creeds and displace the most fundamental conceptions. The haunting visions of higher possibilities have not merely gathered

splendor and vividness, but their direction has changed—instead of seeing behind the faint tinges of an expiring sunset, all the glory of the day-break has decked the skies before.

It is true that disappointment has followed disappointment, and that discovery upon discovery, and invention after invention, have neither lessened the toil of those who most need respite, nor brought plenty to the poor. But there have been so many things to which it seemed this failure could be laid, that up to our time the new faith has hardly weakened. We have better appreciated the difficulties to be overcome; but not the less trusted that the tendency of the times was to overcome them.

Now, however, we are coming into collision with facts which there can be no mistaking. From all parts of the civilized world come complaints of industrial depression; of labor condemned to involuntary idleness; of capital massed and wasting; of pecuniary distress among business men; of want and suffering and anxiety among the working classes. All the dull, deadening pain, all the keen, maddening anguish, that to great masses of men are involved in the words "hard times," afflict the world to-day. This state of things, common to communities differing so widely in situation, in political institutions, in fiscal and financial systems, in density of population and in social organization, can hardly be accounted for by local causes. There is distress where large standing armies are maintained, but there is also distress where the standing armies are nominal; there is distress where protective tariffs stupidly and wastefully hamper trade, but there is also distress where trade is nearly free; there is distress where autocratic government yet prevails, but there is also distress where political power is wholly in the hands of the people; in countries where paper is money, and in countries where gold and silver are the only currency. Evidently, beneath all such things as these, we must infer a common cause.

That there is a common cause, and that it is either what we call material progress or something closely connected with material progress, becomes more than an inference when it is noted that the phenomena we class together and speak of as industrial depression are but intensifications of phenomena which always accompany material progress, and which show themselves more clearly and strongly as material progress goes on. Where the conditions to which material progress everywhere tends are most fully realized—that is to say, where population is densest, wealth greatest, and the machinery of production and exchange most highly developed—we find the deepest pov-



erty, the sharpest struggle for existence, and the most of enforced idleness.

It is to the newer countries—that is, to the countries where material progress is yet in its earlier stages—that laborers emigrate in search of higher wages, and capital flows in search of higher interest. It is in the older countries—that is to say, the countries where material progress has reached later stages—that widespread destitution is found in the midst of the greatest abundance. Go into one of the new communities where Anglo-Saxon vigor is just beginning the race of progress; where the machinery of production and exchange is yet rude and inefficient; where the increment of wealth is not yet great enough to enable any class to live in ease and luxury; where the best house is but a cabin of logs or a cloth and paper shanty, and the richest man is forced to daily work—and though you will find an absence of wealth and all its concomitants, you will find no beggars. There is no luxury, but there is no destitution. No one makes an easy living, nor a very good living; but every one *can* make a living, and no one able and willing to work is oppressed by the fear of want.

But just as such a community realizes the conditions which all civilized communities are striving for, and advances in the scale of material progress—just as closer settlement and a more intimate connection with the rest of the world, and greater utilization of labor-saving machinery, make possible greater economies in production and exchange, and wealth in consequence increases, not merely in the aggregate, but in proportion to population—so does poverty take a darker aspect. Some get an infinitely better and easier living, but others find it hard to get a living at all. The “tramp” comes with the locomotive, and almshouses and prisons are as surely the marks of “material progress” as are costly dwellings, rich warehouses, and magnificent churches. Upon streets lighted with gas and patrolled by uniformed policemen, beggars wait for the passer-by, and in the shadow of college, and library, and museum, are gathering the more hideous Huns and fiercer Vandals of whom Macaulay prophesied.

This fact—the great fact that poverty and all its concomitants show themselves in communities just as they develop into the conditions toward which material progress tends—proves that the social difficulties existing wherever a certain stage of progress has been reached, do not arise from local circumstances, but are, in some way or another, engendered by progress itself.

And, unpleasant as it may be to admit it, it is at last becoming evident that the enormous increase in productive power which has marked the pres-

ent century and is still going on with accelerating ratio, has no tendency to extirpate poverty or to lighten the burdens of those compelled to toil. It simply widens the gulf between Dives and Lazarus, and makes the struggle for existence more intense. The march of invention has clothed mankind with powers of which a century ago the boldest imagination could not have dreamed. But in factories where labor-saving machinery has reached its most wonderful development, little children are at work; wherever the new forces are anything like fully utilized, large classes are maintained by charity or live on the verge of recourse to it; amid the greatest accumulations of wealth, men die of starvation, and puny infants suckle dry breasts; while everywhere the greed of gain, the worship of wealth, shows the force of the fear of want. The promised land flies before us like the mirage. The fruits of the tree of knowledge turn as we grasp them to apples of Sodom that crumble at the touch.

It is true that wealth has been greatly increased, and that the average of comfort, leisure, and refinement has been raised; but these gains are not general. In them the lowest class do not share.<sup>1</sup> I do not mean that the condition of the lowest class has nowhere nor in anything been improved; but that there is nowhere any improvement which can be credited to increased productive power. I mean that the tendency of what we call material progress is in nowise to improve the condition of the lowest class in the essentials of healthy, happy human life. Nay, more, that it is still further to depress the condition of the lowest class. The new forces, elevating in their nature though they be, do not act upon the social fabric from underneath, as was for a long time hoped and believed, but strike it at a point intermediate between top and bottom. It is as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down.

This depressing effect is not generally realized, for it is not apparent where there has long existed a class just able to live. Where the lowest class barely lives, as has been the case for a

<sup>1</sup> It is true that the poorest may now in certain ways enjoy what the richest a century ago could not have commanded, but this does not show improvement of condition so long as the ability to obtain the necessities of life is not increased. The beggar in a great city may enjoy many things from which the backwoods farmer is debarred, but that does not prove the condition of the city beggar better than that of the independent farmer.

long time in many parts of Europe, it is impossible for it to get any lower, for the next lowest step is out of existence, and no tendency to further depression can readily show itself. But in the progress of new settlements to the conditions of older communities it may clearly be seen that material progress does not merely fail to relieve poverty—it actually produces it. In the United States it is clear that squalor and misery, and the vices and crimes that spring from them, everywhere increase as the village grows to the city, and the march of development brings the advantages of the improved methods of production and exchange. It is in the older and richer sections of the Union that pauperism and distress among the working classes are becoming most painfully apparent. If there is less deep poverty in San Francisco than in New York, is it not because San Francisco is yet behind New York in all that both cities are striving for? When San Francisco reaches the point where New York now is, who can doubt that there will also be ragged and barefooted children on her streets?

This association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy and education grapple in vain. From it come the clouds that overhang the future of the most progressive and self-reliant nations. It is the riddle which the Sphinx of Fate puts to our civilization, and which not to answer is to be destroyed. So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent. The reaction must come. The tower leans from its foundations, and every new story but hastens the final catastrophe. To educate men who must be condemned to poverty, is but to make them restive; to base on a state of most glaring social inequality political institutions under which men are theoretically equal, is to stand a pyramid on its apex.

All-important as this question is, pressing itself from every quarter painfully upon attention, it has not yet received a solution which accounts for all the facts and points to any clear and simple remedy. This is shown by the widely varying attempts to account for the prevailing depression. They exhibit not merely a divergence between vulgar notions and scientific theories, but also show that the concurrence which should exist between those who avow the same general theories

breaks up upon practical questions into an anarchy of opinion. Upon high economic authority we have been told that the prevailing depression is due to over-consumption; upon equally high authority, that it is due to over-production; while the wastes of war, the extension of railroads, the attempts of workmen to keep up wages, the demonetization of silver, the issues of paper money, the increase of labor-saving machinery, the opening of shorter avenues to trade, etc., are separately pointed out as the cause, by writers of reputation.

And while professors thus disagree, the ideas that there is a necessary conflict between capital and labor, that machinery is an evil, that competition must be restrained and interest abolished, that wealth may be created by the issue of money, that it is the duty of government to furnish capital or to furnish work, are rapidly making way among the great body of the people, who keenly feel a hurt and are sharply conscious of a wrong. Such ideas, which bring great masses of men, the repositories of ultimate political power, under the leadership of charlatans and demagogues, are fraught with danger; but they cannot be successfully combated until political economy shall give some answer to the great question which shall be consistent with all her teachings, and which shall commend itself to the perceptions of the great masses of men.

It must be within the province of political economy to give such an answer. For political economy is not a set of dogmas. It is the explanation of a certain set of facts. It is the science which, in the sequence of certain phenomena, seeks to trace mutual relations and to identify cause and effect, just as the physical sciences seek to do in other sets of phenomena. It lays its foundations upon firm ground. The premises from which it makes its deductions are truths which have the highest sanction; axioms which we all recognize; upon which we safely base the reasoning and actions of every-day life, and which may be reduced to the metaphysical expression of the physical law that motion seeks the line of least resistance—viz., that men seek to gratify their desires with the least exertion. Proceeding from a basis thus assured, its processes, which consist simply in identification and separation, have the same certainty. In this sense it is as exact a science as geometry, which, from similar truths relative to space, obtains its conclusions by similar means, and its conclusions when valid should be as self-apparent. And although in the domain of political economy we cannot test our theories by artificially produced combinations or conditions, as may be done in some of the other sciences, yet we

can apply tests no less conclusive, by comparing societies in which different conditions exist, or by, in imagination, separating, combining, adding or eliminating forces or factors of known direction.

I propose in the following pages to attempt to solve by the methods of political economy the great problem I have outlined. I propose to seek the law which associates poverty with progress, and increases want with advancing wealth; and I believe that in the explanation of this paradox we shall find the explanation of those recurring seasons of industrial and commercial paralysis which, viewed independently of their relations to more general phenomena, seem so inexplicable. Properly commenced and carefully pursued, such an investigation must yield a conclusion that will stand every test, and as truth, will correlate with all other truth. For in the sequence of phenomena there is no accident. Every effect has a cause, and every fact implies a preceding fact.

That political economy, as at present taught, does not explain the persistence of poverty amid advancing wealth in a manner which accords with the deep-seated perceptions of men; that the unquestionable truths which it does teach are unrelated and disjointed; that it has failed to make the progress in popular thought that truth, even when unpleasant, must make; that, on the contrary, after a century of cultivation, during which it has engrossed the attention of some of the most subtle and powerful intellects, it should be spurned by the statesman, scouted by the masses, and relegated in the opinion of many educated and thinking men to the rank of a pseudo-science in which nothing is fixed or can be fixed—must, it seems to me, be due not to any inability of the science when properly pursued, but to some false step in its premises, or overlooked factor in its estimates. And as such mistakes are generally concealed by the respect paid to authority, I propose in this inquiry to take nothing for granted, but to bring even accepted theories to the test of first principles, and should they not stand the test, freshly to interrogate facts in the endeavor to discover their law.

I propose to beg no question, to shrink from no conclusion, but to follow truth wherever it may lead. Upon us is the responsibility of seeking the law, for in the very heart of our civilization to-day women faint and little children moan. But what that law may prove to be is not our affair. If the conclusions that we reach run counter to our prejudices, let us not flinch; if they challenge institutions that have long been deemed wise and natural, let us not turn back.

## BOOK VIII, CHAPTER II: HOW EQUAL RIGHTS TO THE LAND MAY BE ASSERTED AND SECURED

WE HAVE TRACED the want and suffering that everywhere prevail among the working classes, the recurring paroxysms of industrial depression, the scarcity of employment, the stagnation of capital, the tendency of wages to the starvation point, that exhibit themselves more and more strongly as material progress goes on, to the fact that the land on which and from which all must live is made the exclusive property of some.

We have seen that there is no possible remedy for these evils but the abolition of their cause; we have seen that private property in land has no warrant in justice, but stands condemned as the denial of natural right—a subversion of the law of nature that as social development goes on must condemn the masses of men to a slavery the hardest and most degrading.

We have weighed every objection, and seen that neither on the ground of equity or expediency is there anything to deter us from making land common property by confiscating rent.

But a question of method remains. How shall we do it?

We should satisfy the law of justice, we should meet all economic requirements, by at one stroke abolishing all private titles, declaring all land public property, and letting it out to the highest bidders in lots to suit, under such conditions as would sacredly guard the private right to improvements.

Thus we should secure, in a more complex state of society, the same equality of rights that in a ruder state were secured by equal partitions of the soil, and by giving the use of the land to whoever could procure the most from it, we should secure the greatest production.

Such a plan, instead of being a wild, impracticable vagary, has (with the exception that he suggests compensation to the present holders of land—undoubtedly a careless concession which he upon reflection would reconsider) been indorsed by no less eminent a thinker than Herbert Spencer, who ("Social Statics," Chap. IX, Sec. 8) says of it:

"Such a doctrine is consistent with the highest state of civilization; may be carried out without involving a community of goods, and need cause no very serious revolution in existing arrangements. The change required would simply be a change of landlords. Separate ownership would merge into the joint-stock ownership of the public. Instead of being in the possession of individuals, the country would be held by the great cor-

porate body—society. Instead of leasing his acres from an isolated proprietor, the farmer would lease them from the nation. Instead of paying his rent to the agent of Sir John or his Grace, he would pay it to an agent or deputy agent of the community. Stewards would be public officials instead of private ones, and tenancy the only land tenure. A state of things so ordered would be in perfect harmony with the moral law. Under it all men would be equally landlords, all men would be alike free to become tenants. . . . Clearly, therefore, on such a system, the earth might be enclosed, occupied and cultivated, in entire subordination to the law of equal freedom."

But such a plan, though perfectly feasible, does not seem to me the best. Or rather I propose to accomplish the same thing in a simpler, easier, and quieter way, than that of formally confiscating all the land and formally letting it out to the highest bidders.

To do that would involve a needless shock to present customs and habits of thought—which is to be avoided.

To do that would involve a needless extension of governmental machinery—which is to be avoided.

It is an axiom of statesmanship, which the successful founders of tyranny have understood and acted upon—that great changes can best be brought about under old forms. We, who would free men, should heed the same truth. It is the natural method. When nature would make a higher type, she takes a lower one and develops it. This, also, is the law of social growth. Let us work by it. With the current we may glide fast and far. Against it, it is hard pulling and slow progress.

I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second, needless. Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.*

Nor to take rent for public uses is it necessary that the State should bother with the letting of lands, and assume the chances of the favoritism, collusion, and corruption this might involve. It is not necessary that any new machinery should be created. The machinery already exists. Instead of extending it, all we have to do is to simplify and reduce it. By leaving to land owners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent

lands through State agency, and by making use of this existing machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses.

We already take some rent in taxation. We have only to make some changes in our modes of taxation to take it all.

What I, therefore, propose, as the simple yet sovereign remedy, which will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights, is—to appropriate rent by taxation.

In this way the State may become the universal landlord without calling herself so, and without assuming a single new function. In form, the ownership of land would remain just as now. No owner of land need be dispossessed, and no restriction need be placed upon the amount of land any one could hold. For, rent being taken by the State in taxes, land, no matter in whose name it stood, or in what parcels it was held, would be really common property, and every member of the community would participate in the advantages of its ownership.

Now, inasmuch as the taxation of rent, or land values, must necessarily be increased just as we abolish other taxes, we may put the proposition into practical form by proposing—

*To abolish all taxation save that upon land values.*

As we have seen, the value of land is at the beginning of society nothing, but as society develops by the increase of population and the advance of the arts, it becomes greater and greater. In every civilized country, even the newest, the value of the land taken as a whole is sufficient to bear the entire expenses of government. In the better developed countries it is much more than sufficient. Hence it will not be enough merely to place all taxes upon the value of land. It will be necessary, where rent exceeds the present governmental revenues, commensurately to increase the amount demanded in taxation, and to continue this increase as society progresses and rent advances. But this is so natural and easy a matter, that it may be considered as involved, or at least understood, in the proposition to put all taxes on the value of land. That is the first step, upon which the practical struggle must be made. When the hare is once caught and killed, cooking him will follow as a matter of course. When the common right to land is so far appreciated that all

taxes are abolished save those which fall upon rent, there is no danger of much more than is necessary to induce them to collect the public revenues being left to individual land holders.

Experience has taught me (for I have been for some years endeavoring to popularize this proposition) that wherever the idea of concentrating all taxation upon land values finds lodgment sufficient to induce consideration, it invariably makes way, but that there are few of the classes most to be benefited by it, who at first, or even for a long time afterward, see its full significance and power. It is difficult for workingmen to get over the idea that there is a real antagonism between capital

and labor. It is difficult for small farmers and homestead owners to get over the idea that to put all taxes on the value of land would be unduly to tax them. It is difficult for both classes to get over the idea that to exempt capital from taxation would be to make the rich richer, and the poor poorer. These ideas spring from confused thought. But behind ignorance and prejudice there is a powerful interest, which has hitherto dominated literature, education, and opinion. A great wrong always dies hard, and the great wrong which in every civilized country condemns the masses of men to poverty and want, will not die without a bitter struggle. . . .

## WILLIAM GRAHAM SUMNER

OF THE MANY courageous spirits who combined to bring the doctrine of evolution to America, John Fiske (1842-1901) became the most popular. His *Outlines of Cosmic Philosophy*, completed in 1874, and his lectures—notably *The Idea of God as Affected by Modern Knowledge* (1885)—proved to his audiences what they wanted to hear: their beliefs were not destroyed but, on the contrary, were reinforced by the teachings of modern biological science. Fiske sought to demonstrate that the highest development of man's spiritual qualities was the actual goal of the evolutionary process. Hence, the doctrine of evolution returned man to his position of headship in the universe and made God more intimately a part of that universe than He had been. Science (Spencerian science, it may be said parenthetically) buttressed true religion.

William Graham Sumner (1840-1910) pushed the Spencerian analysis into the area of social arrangements: laissez faire, private property, and individualism were the final achievements of societal evolution. A man knew his own business better than any government could, and a man's success in business was the measure of his efficiency and hence of his social worth. Accordingly, Sumner attacked all forms of state and associational intervention.

The introduction of machine production has unified the modern industrial world and held

out the promise of plenty; that system of production, not political revolutions or philosophical constructs, has changed society. Economists have failed in their duty, Sumner told the New York Free Trade Club in 1879; their inability to agree among themselves has given intellectual respectability to the nonsense which afflicts the world. Instead of uniting against heresies in finance and errors in social policy, the economists are no more ready than the ignorant to face the fact that industrial life is a struggle in which the fit survive. If protection of the unfit should succeed, it would operate only to arrest necessary changes in financial methods and industrial processes. Since freedom for change is characteristic of the present advancing system of social relations, the implication is evident.

In 1883, in his *What Social Classes Owe to Each Other*, Sumner put his position clearly and vigorously. It is a classic statement in defense of nonintervention. As a result of long struggle, society has raised itself from the rigidity of "status" to the free flexibility of "contract." That change has given the exceptional individual the opportunity to advance; it has shifted responsibility from the group to the individual. There were no classes, consequently; certainly there were no groups to whom anything was owed by some other group. Individuals simply owed each other "good-will, mutual respect, and mutual guarantees of liberty and security."

But legislation could not dictate good-will and justice was a matter of right, not favor.

The "forgotten man," however, was Sumner's concern. The "forgotten man" was the solid, middle-class citizen who minded his business, paid his bills, and was ignored by everyone but the tax-collector. If society owed anyone a duty, it was to this "forgotten man," and society could best fulfill its obligation by making property secure and government as cheap as might be consistent with the achievement of that security.

Sumner worked in other fields with equal distinction. He was a close student of American banking; he wrote biographies of Robert Morris, Andrew Jackson, and Alexander Hamilton; and he made a remarkable collection of anthropological data on the origin and evolution of social institutions—one of the most important works in American anthropology—called *Folkways* (Boston, 1907).

The selection here reprinted is from the original edition of *What Social Classes Owe to Each Other* (New York, 1883).

## *What Social Classes Owe to Each Other*

BY WILLIAM GRAHAM SUMNER

### INTRODUCTION

WE ARE TOLD every day that great social problems stand before us and demand a solution, and we are assailed by oracles, threats, and warnings in reference to those problems. There is a school of writers who are playing quite a rôle as the heralds of the coming duty and the coming woe. They assume to speak for a large, but vague and undefined, constituency, who set the task, exact a fulfilment, and threaten punishment for default. The task or problem is not specifically defined. Part of the task which devolves on those who are subject to the duty is to define the problem. They are told only that something is the matter: that it behooves them to find out what it is, and how to correct it, and then to work out the cure. All this is more or less truculently set forth.

After reading and listening to a great deal of this sort of assertion I find that the question forms itself with more and more distinctness in my mind: Who are those who assume to put hard questions to other people and to demand a solution of them? How did they acquire the right to demand that others should solve their world-problems for them? Who are they who are held to consider and solve all questions, and how did they fall under this duty?

So far as I can find out what the classes are who are respectively endowed with the rights and duties of posing and solving social problems, they are as follows: Those who are bound to solve the problems are the rich, comfortable, prosperous, virtuous, respectable, educated, and healthy; those whose right it is to set the problems are those who have been less fortunate or less suc-

cessful in the struggle for existence. The problem itself seems to be, How shall the latter be made as comfortable as the former? To solve this problem, and make us all equally well off, is assumed to be the duty of the former class; the penalty, if they fail of this, is to be bloodshed and destruction. If they cannot make everybody else as well off as themselves, they are to be brought down to the same misery as others.

During the last ten years I have read a great many books and articles, especially by German writers, in which an attempt has been made to set up "the State" as an entity having conscience, power, and will sublimated above human limitations, and as constituting a tutelary genius over us all. I have never been able to find in history or experience anything to fit this concept. I once lived in Germany for two years, but I certainly saw nothing of it there then. Whether the State which Bismarck is moulding will fit the notion is at best a matter of faith and hope. My notion of the State has dwindled with growing experience of life. As an abstraction, the State is to me only All-of-us. In practice—that is, when it exercises will or adopts a line of action—it is only a little group of men chosen in a very hap-hazard way by the majority of us to perform certain services for all of us. The majority do not go about their selection very rationally, and they are almost always disappointed by the results of their own operation. Hence "the State," instead of offering resources of wisdom, right reason, and pure moral sense beyond what the average of us possess, generally offers much less of all those things. Furthermore, it often turns out in practice that "the State" is not even the known and ac-

credited servants of the State, but, as has been well said, is only some obscure clerk, hidden in the recesses of a Government bureau, into whose power the chance has fallen for the moment to pull one of the stops which control the Government machine. In former days it often happened that "the State" was a barber, a fiddler, or a bad woman. In our day it often happens that "the State" is a little functionary on whom a big functionary is forced to depend.

I cannot see the sense of spending time to read and write observations, such as I find in the writings of many men of great attainments and of great influence, of which the following might be a general type: If the statesmen could attain to the requisite knowledge and wisdom, it is conceivable that the State might perform important regulative functions in the production and distribution of wealth, against which no positive and sweeping theoretical objection could be made from the side of economic science; but statesmen never can acquire the requisite knowledge and wisdom.—To me this seems a mere waste of words. The inadequacy of the State to regulative tasks is agreed upon, as a matter of fact, by all. Why, then, bring State regulation into the discussion simply in order to throw it out again? The whole subject ought to be discussed and settled aside from the hypothesis of State regulation.

The little group of public servants who, as I have said, constitute the State, when the State determines on anything, could not do much for themselves or anybody else by their own force. If they do anything, they must dispose of men, as in an army, or of capital, as in a treasury. But the army, or police, or *posse comitatus*, is more or less All-of-us, and the capital in the treasury is the product of the labor and saving of All-of-us. Therefore, when the State means power-to-do it means All-of-us, as brute force or as industrial force.

If anybody is to benefit from the action of the State it must be Some-of-us. If, then, the question is raised, What ought the State to do for labor, for trade, for manufactures, for the poor, for the learned professions? etc., etc.—that is, for a class or an interest—it is really the question, What ought All-of-us to do for Some-of-us? But Some-of-us are included in All-of-us, and, so far as they get the benefit of their own efforts, it is the same as if they worked for themselves, and they may be cancelled out of All-of-us. Then the question which remains is, What ought Some-of-us to do for Others-of-us? or, What do social classes owe to each other?

I now propose to try to find out whether there

is any class in society which lies under the duty and burden of fighting the battles of life for any other class, or of solving social problems for the satisfaction of any other class; also, whether there is any class which has the right to formulate demands on "society"—that is, on other classes; also, whether there is anything but a fallacy and a superstition in the notion that "the State" owes anything to anybody except peace, order, and the guarantees of rights.

I have in view, throughout the discussion, the economic, social, and political circumstances which exist in the United States.

## CHAPTER I

It is commonly asserted that there are in the United States no classes, and any allusion to classes is resented. On the other hand, we constantly read and hear discussions of social topics in which the existence of social classes is assumed as a simple fact. "The poor," "the weak," "the laborers," are expressions which are used as if they had exact and well-understood definition. Discussions are made to bear upon the assumed rights, wrongs, and misfortunes of certain social classes; and all public speaking and writing consists, in a large measure, of the discussion of general plans for meeting the wishes of classes of people who have not been able to satisfy their own desires. These classes are sometimes discontented, and sometimes not. Sometimes they do not know that anything is amiss with them until the "friends of humanity" come to them with offers of aid. Sometimes they are discontented and envious. They do not take their achievements as a fair measure of their rights. They do not blame themselves or their parents for their lot, as compared with that of other people. Sometimes they claim that they have a right to everything of which they feel the need for their happiness on earth. To make such a claim against God or Nature would, of course, be only to say that we claim a right to live on earth if we can. But God and Nature have ordained the chances and conditions of life on earth once for all. The case cannot be reopened. We cannot get a revision of the laws of human life. We are absolutely shut up to the need and duty, if we would learn how to live happily, of investigating the laws of Nature, and deducing the rules of right living in the world as it is. These are very wearisome and commonplace tasks. They consist in labor and self-denial repeated over and over again in learning and doing. When the people whose claims we are considering are told to apply themselves to these tasks they become irritated and feel almost insulted. They formulate their claims



as rights against society—that is, against some other men. In their view they have a right, not only to *pursue* happiness, but to *get* it; and if they fail to get it, they think they have a claim to the aid of other men—that is, to the labor and self-denial of other men—to get it for them. They find orators and poets who tell them that they have grievances, so long as they have unsatisfied desires.

... Certain ills belong to the hardship of human life. They are natural. They are part of the struggle with Nature for existence. We cannot blame our fellow-men for our share of these. My neighbor and I are both struggling to free ourselves from these ills. The fact that my neighbor has succeeded in this struggle better than I constitutes no grievance for me. Certain other ills are due to the malice of men, and to the imperfections or errors of civil institutions. These ills are an object of agitation, and a subject of discussion. The former class of ills is to be met only by manly effort and energy; the latter may be corrected by associated effort. The former class of ills is constantly grouped and generalized, and made the object of social schemes. We shall see, as we go on, what that means. The second class of ills may fall on certain social classes, and reform will take the form of interference by other classes in favor of that one. The last fact is, no doubt, the reason why people have been led, not noticing distinctions, to believe that the same method was applicable to the other class of ills. The distinction here made between the ills which belong to the struggle for existence and those which are due to the faults of human institutions is of prime importance.

It will also be important, in order to clear up our ideas about the notions which are in fashion, to note the relation of the economic to the political significance of assumed duties of one class to another. That is to say, we may discuss the question whether one class owes duties to another by reference to the economic effects which will be produced on the classes and society; or we may discuss the political expediency of formulating and enforcing rights and duties respectively between the parties. In the former case we might assume that the givers of aid were willing to give it, and we might discuss the benefit or mischief of their activity. In the other case we must assume that some at least of those who were forced to give aid did so unwillingly. Here, then, there would be a question of rights. The question whether voluntary charity is mischievous or not is one thing; the question whether legislation which forces one man to aid another is right and wise, as

well as economically beneficial, is quite another question. Great confusion and consequent error is produced by allowing these two questions to become entangled in the discussion. Especially we shall need to notice the attempts to apply legislative methods of reform to the ills which belong to the order of Nature.

There is no possible definition of "a poor man." A pauper is a person who cannot earn his living; whose producing powers have fallen positively below his necessary consumption; who cannot, therefore, pay his way. A human society needs the active co-operation and productive energy of every person in it. A man who is present as a consumer, yet who does not contribute either by land, labor, or capital to the work of society, is a burden. On no sound political theory ought such a person to share in the political power of the State. He drops out of the ranks of workers and producers. Society must support him. It accepts the burden, but he must be cancelled from the ranks of the rulers likewise. So much for the pauper. About him no more need be said. But he is not the "poor man." The "poor man" is an elastic term, under which any number of social fallacies may be hidden.

Neither is there any possible definition of "the weak." Some are weak in one way, and some in another; and those who are weak in one sense are strong in another. In general, however, it may be said that those whom humanitarians and philanthropists call the weak are the ones through whom the productive and conservative forces of society are wasted. They constantly neutralize and destroy the finest efforts of the wise and industrious, and are a dead-weight on the society in all its struggles to realize any better things. Whether the people who mean no harm, but are weak in the essential powers necessary to the performance of one's duties in life, or those who are malicious and vicious, do the more mischief, is a question not easy to answer.

Under the names of the poor and the weak, the negligent, shiftless, inefficient, silly, and imprudent are fastened upon the industrious and prudent as a responsibility and a duty. On the one side, the terms are extended to cover the idle, intemperate, and vicious, who, by the combination, gain credit which they do not deserve, and which they could not get if they stood alone. On the other hand, the terms are extended to include wage-receivers of the humblest rank, who are degraded by the combination. The reader who desires to guard himself against fallacies should always scrutinize the terms "poor" and "weak" as used, so as to see which or how



any of these classes they are made to cover. The humanitarians, philanthropists, and reformers, looking at the facts of life as they present themselves, find enough which is sad and unpromising in the condition of many members of society. They see wealth and poverty side by side. They note great inequality of social position and social chances. They eagerly set about the attempt to account for what they see, and to devise schemes or remedying what they do not like. In their eagerness to recommend the less fortunate classes to pity and consideration they forget all about the rights of other classes; they gloss over all the faults of the classes in question, and they exaggerate their misfortunes and their virtues. They invent new theories of property, distorting rights and perpetrating injustice, as any one is sure to do who sets about the re-adjustment of social relations with the interests of one group distinctly before his mind, and the interests of all other groups thrown into the background. When I have read certain of these discussions I have thought that it must be quite disreputable to be respectable, quite dishonest to own property, quite unjust to go one's own way and earn one's own living, and that the only really admirable person was the good-for-nothing. The man who by his own effort raises himself above poverty appears, in these discussions, to be of no account. The man who has done nothing to raise himself above poverty finds that the social doctors flock about him, bringing the capital which they have collected from the other class, and promising him the aid of the State to give him what the other had to work for. In all these schemes and projects the organized intervention of society through the State is either planned or hoped for, and the State is thus made to become the protector and guardian of certain classes. The agents who are to direct the State action are, of course, the reformers and philanthropists. Their schemes, therefore, may always be reduced to this type—that A and B decide what C shall do for D. It will be interesting to inquire, at a later period of our discussion, who C is, and what the effect is upon him of all these arrangements. In all the discussions attention is concentrated on A and B, the noble social reformers, and on D, the "poor man." I call C the Forgotten Man, because I have never seen that any notice was taken of him in any of the discussions. When we have disposed of A, B, and D we can better appreciate the case of C, and I think that we shall find that he deserves our attention, for the worth of his character and the magnitude of his unmerited burdens. Here it may suffice to observe that, on the theories of the social philos-

ophers to whom I have referred, we should get a new maxim of judicious living: Poverty is the best policy. If you get wealth, you will have to support other people; if you do not get wealth, it will be the duty of other people to support you.

No doubt one chief reason for the unclear and contradictory theories of class relations lies in the fact that our society, largely controlled in all its organization by one set of doctrines, still contains survivals of old social theories which are totally inconsistent with the former. In the Middle Ages men were united by custom and prescription into associations, ranks, guilds, and communities of various kinds. These ties endured as long as life lasted. Consequently society was dependent, throughout all its details, on status, and the tie, or bond, was sentimental. In our modern state, and in the United States more than anywhere else, the social structure is based on contract, and status is of the least importance. Contract, however, is rational—even rationalistic. It is also realistic, cold, and matter-of-fact. A contract relation is based on a sufficient reason, not on custom or prescription. It is not permanent. It endures only so long as the reason for it endures. In a state based on contract sentiment is out of place in any public or common affairs. It is relegated to the sphere of private and personal relations, where it depends not at all on class types, but on personal acquaintance and personal estimates. The sentimentalists among us always seize upon the survivals of the old order. They want to save them and restore them. Much of the loose thinking also which troubles us in our social discussions arises from the fact that men do not distinguish the elements of status and of contract which may be found in our society.

Whether social philosophers think it desirable or not, it is out of the question to go back to status or to the sentimental relations which once united baron and retainer, master and servant, teacher and pupil, comrade and comrade. That we have lost some grace and elegance is undeniable. That life once held more poetry and romance is true enough. But it seems impossible that any one who has studied the matter should doubt that we have gained immeasurably, and that our farther gains lie in going forward, not in going backward. The feudal ties can never be restored. If they could be restored they would bring back personal caprice, favoritism, sycophancy, and intrigue. A society based on contract is a society of free and independent men, who form ties without favor or obligation, and co-operate without cringing or intrigue. A society based on contract, therefore, gives the utmost room and

chance for individual development, and for all the self-reliance and dignity of a free man. That a society of free men, co-operating under contract, is by far the strongest society which has ever yet existed; that no such society has ever yet developed the full measure of strength of which it is capable; and that the only social improvements which are now conceivable lie in the direction of more complete realization of a society of free men united by contract, are points which cannot be controverted. It follows, however, that one man, in a free state, cannot claim help from, and cannot be charged to give help to, another. To understand the full meaning of this assertion it will be worth while to see what a free democracy is.

#### CHAPTER II

. . . The notion of civil liberty which we have inherited is that of *a status created for the individual by laws and institutions, the effect of which is that each man is guaranteed the use of all his own powers exclusively for his own welfare*. It is not at all a matter of elections, or universal suffrage, or democracy. All institutions are to be tested by the degree to which they guarantee liberty. It is not to be admitted for a moment that liberty is a means to social ends, and that it may be impaired for major considerations. Any one who so argues has lost the bearing and relation of all the facts and factors in a free state. A human being has a life to live, a career to run. He is a centre of powers to work, and of capacities to suffer. What his powers may be—whether they can carry him far or not; what his chances may be, whether wide or restricted; what his fortune may be, whether to suffer much or little—are questions of his personal destiny which he must work out and endure as he can; but for all that concerns the bearing of the society and its institutions upon that man, and upon the sum of happiness to which he can attain during his life on earth, the product of all history and all philosophy up to this time is summed up in the doctrine, that he should be left free to do the most for himself that he can, and should be guaranteed the exclusive enjoyment of all that he does. If the society—that is to say, in plain terms, if his fellow-men, either individually, by groups, or in a mass—impinge upon him otherwise than to surround him with neutral conditions of security, they must do so under the strictest responsibility to justify themselves. Jealousy and prejudice against all such interferences are high political virtues in a free man. It is not at all the function of the State to make men happy. They must make themselves

happy in their own way, and at their own risk. The functions of the State lie entirely in the conditions or chances under which the pursuit of happiness is carried on, so far as those conditions or chances can be affected by civil organization. Hence, liberty for labor and security for earnings are the ends for which civil institutions exist, not means which may be employed for ulterior ends.

Now, the cardinal doctrine of any sound political system is, that rights and duties should be in equilibrium. A monarchical or aristocratic system is not immoral, if the rights and duties of persons and classes are in equilibrium, although the rights and duties of different persons and classes are unequal. An immoral political system is created whenever there are privileged classes—that is, classes who have arrogated to themselves rights while throwing the duties upon others. In a democracy all have equal political rights. That is the fundamental political principle. A democracy, then, becomes immoral, if all have not equal political duties. This is unquestionably the doctrine which needs to be reiterated and inculcated beyond all others, if the democracy is to be made sound and permanent. Our orators and writers never speak of it, and do not seem often to know anything about it; but the real danger of democracy is, that the classes which have the power under it will assume all the rights and reject all the duties—that is, that they will use the political power to plunder those-who-have. Democracy, in order to be true to itself, and to develop into a sound working system, must oppose the same cold resistance to any claims for favor on the ground of poverty, as on the ground of birth and rank. It can no more admit to public discussion, as within the range of possible action, any schemes for coddling and helping wage-receivers than it could entertain schemes of restricting political power to wage-payers. It must put down schemes for making "the rich" pay for whatever "the poor" want, just as it tramples on the old theories that only the rich are fit to regulate society. One needs but to watch our periodical literature to see the danger that democracy will be construed as a system of favoring a new privileged class of the many and the poor.

Holding in mind, now, the notions of liberty and democracy as we have defined them, we see that it is not altogether a matter of fanfaronade when the American citizen calls himself a "sovereign." A member of a free democracy is, in a sense, a sovereign. He has no superior. He has reached his sovereignty, however, by a process of reduction and division of power which leaves him

no inferior. It is very grand to call one's self a sovereign, but it is greatly to the purpose to notice that the political responsibilities of the free man have been intensified and aggregated just in proportion as political rights have been reduced and divided. Many monarchs have been incapable of sovereignty and unfit for it. Placed in exalted situations, and inheritors of grand opportunities, they have exhibited only their own imbecility and vice. The reason was, because they thought only of the gratification of their own vanity, and not at all of their duty. The free man who steps forward to claim his inheritance and endowment as a free and equal member of a great civil body must understand that his duties and responsibilities are measured to him by the same scale as his rights and his powers. He wants to be subject to no man. He wants to be equal to his fellows, as all sovereigns are equal. So be it; but he cannot escape the deduction that he can call no man to his aid. The other sovereigns will not respect his independence if he becomes dependent, and they cannot respect his equality if he sues for favors. The free man in a free democracy, when he cut off all the ties which might pull him down, severed also all the ties by which he might have made others pull him up. He must take all the consequences of his new status. He is, in a certain sense, an isolated man. The family tie does not bring to him disgrace for the misdeeds of his relatives, as it once would have done, but neither does it furnish him with the support which it once would have given. The relations of men are open and free, but they are also loose. A free man in a free democracy derogates from his rank if he takes a favor for which he does not render an equivalent.

A free man in a free democracy has no duty whatever toward other men of the same rank and standing, except respect, courtesy, and good-will. We cannot say that there are no classes, when we are speaking politically, and then say that there are classes, when we are telling A what it is his duty to do for B. In a free state every man is held and expected to take care of himself and his family, to make no trouble for his neighbor, and to contribute his full share to public interests and common necessities. If he fails in this he throws burdens on others. He does not thereby acquire rights against the others. On the contrary, he only accumulates obligations toward them; and if he is allowed to make his deficiencies a ground of new claims, he passes over into the position of a privileged or petted person—emancipated from duties, endowed with claims. This is the inevitable result of combining democratic political theories with humanitarian social theories. It would be

aside from my present purpose to show, but it is worth noticing in passing, that one result of such inconsistency must surely be to undermine democracy, to increase the power of wealth in the democracy, and to hasten the subjection of democracy to plutocracy; for a man who accepts any share which he has not earned in another man's capital cannot be an independent citizen. . . .

#### CONCLUSION

. . . We have now seen that the current discussions about the claims and rights of social classes on each other are radically erroneous and fallacious, and we have seen that an analysis of the general obligations which we all have to each other leads us to nothing but an emphatic repetition of old but well-acknowledged obligations to perfect our political institutions. We have been led to restriction, not extension, of the functions of the State, but we have also been led to see the necessity of purifying and perfecting the operation of the State in the functions which properly belong to it. If we refuse to recognize any classes as existing in society when, perhaps, a claim might be set up that the wealthy, educated, and virtuous have acquired special rights and precedence, we certainly cannot recognize any classes when it is attempted to establish such distinctions for the sake of imposing burdens and duties on one group for the benefit of others. The men who have not done their duty in this world never can be equal to those who have done their duty more or less well. If words like wise and foolish, thrifty and extravagant, prudent and negligent, have any meaning in language, then it must make some difference how people behave in this world, and the difference will appear in the position they acquire in the body of society, and in relation to the chances of life. They may, then, be classified in reference to these facts. Such classes always will exist; no other social distinctions can endure. If, then, we look to the origin and definition of these classes, we shall find it impossible to deduce any obligations which one of them bears to the other. The class distinctions simply result from the different degrees of success with which men have availed themselves of the chances which were presented to them. Instead of endeavoring to redistribute the acquisitions which have been made between the existing classes, our aim should be to *increase, multiply, and extend the chances*. Such is the work of civilization. Every old error or abuse which is removed opens new chances of development to all the new energy of society. Every improvement in education, science, art, or

government expands the chances of man on earth. Such expansion is no guarantee of equality. On the contrary, if there be liberty, some will profit by the chances eagerly and some will neglect them altogether. Therefore, the greater the chances the more unequal will be the fortune of these two sets of men. So it ought to be, in all justice and right reason. The yearning after equality is the offspring of envy and covetousness, and there is no possible plan for satisfying that yearning which can do aught else than rob A to give to B; conse-

quently all such plans nourish some of the meanest vices of human nature, waste capital, and overthrow civilization. But if we can expand the chances we can count on a general and steady growth of civilization and advancement of society by and through its best members. In the prosecution of these chances we all owe to each other good-will, mutual respect, and mutual guarantees of liberty and security. Beyond this nothing can be affirmed as a duty of one group to another in a free state.

# THE AMERICAN SCENE

DAVID A. WELLS

IN DAVID A. WELLS's third report as Revenue Commissioner in 1869, one sees clearly the picture of a great United States emerging from four years of war.

David A. Wells (1828-1898) had come to politics with unusual equipment both in education and business experience. Instead of undergoing the usual legal training, Wells had studied at the Sheffield Scientific School, after being graduated from Williams College. He had made practical improvements in textile manufacturing, joined the publishing firm of Putnam's and written several texts in science and technology. In 1864, his pamphlet, *Our Burden and Our Strength* presented an account of the economic position of the United States which helped make prospective buyers more certain of the soundness of investing in government bonds. His work impressed Lincoln to the point of appointing Wells chairman of a commission to investigate the system of raising revenue and then creating the post of Commissioner of Internal Revenue for him.

Wells's refusal to become a mouthpiece for protectionist lobbying led to the abolition of his office and he was retired to private life in 1870. Thereafter, he turned his attention to business and public issues. He helped reorganize the Erie Railroad after the orgy of speculative manipulation which had made it a byword, and he worked for tariff reform. The latter interest is foreshadowed in Wells's third report as revenue commissioner. Though he had come into office certain that protection was desirable, his experience there helped convince him of his error. Study of the nation's development since 1840 "unmistakably teaches this lesson; that the progress of the country through what we may term the strength of its elements of vitality is independent of legislation and even of the im-

poverishment and waste of a great war. Like one of our own mighty rivers, its movement is beyond control. Successive years, like successive affluents, only add to and increase its volume; while legislative enactments and conflicting commercial policies . . . simply deflect the current or constitute temporary obstructions. In fact, if the nation has not yet been lifted to the full comprehension of its own work, it builds determinately, as it were, by instinct."

That instinct had covered the country with railroads, stretched telegraph lines across the continent, dug oil and coal and iron from its ground and made them into machines. Even the South was beginning to restore its broken economy and the rest of the country was making great strides. Yet the nation was still hindered by three barriers in its path: an irredeemable paper currency, an inefficient and inequitable excise system, and an ill-devised tariff policy. All three were raising the American cost of production. The currency had already hampered our export trade; by its continued effect on price levels, it was barring us from world markets. Unequal taxes have been a further check on progress. The excise system should have ended with the war that made it necessary. A tariff sufficient for the revenue needed by the country in its present state of indebtedness would afford a reasonable degree of protection.

Even if a reasonable tariff policy is too much to ask, in view of popular acceptance of protectionist dogma, other steps could be taken. Wells recommends economy in government as a beginning and the end of subsidies to railroads. Tax policy should be reformed, and the government's revenue increased to a point which would allow the purchase and redemption of its bonds. In addition, the Treasury should encour-

age the conversion of the United States notes into bonds so as to reduce the amount of irredeemable paper in circulation. By adopting such a sound financial program, the United States would cut its costs of production, raise its productive power, and move into a state of

prosperity that would not be snapped by the evil effects of inflation.

The selection here reprinted is taken from a pamphlet originally issued as a supplement to the *New York Evening Post* (New York, 1869).

## *Report of the Special Commissioner of the Revenue*

TREASURY DEPARTMENT

OFFICE OF SPECIAL COMMISSIONER OF THE REVENUE

*Washington, D.C., January, 1869*

SIR:—I propose in this my third annual report, which I have the honor herewith to present, to ask through you the attention of Congress to the results of a somewhat extended investigation, instituted with a view not of establishing or confirming any particular theory, but rather of determining, through the collection of positive data, what policy in legislation is likely to prove hereafter most advantageous to the revenue, and most certain to establish the credit and industry of the whole country upon a sound and substantial basis.

As all reasoning in respect to the future must necessarily be predicated upon the experience of the past or present, it is obvious that the first step or starting point of this inquiry is involved in the determination of the question as to what is

### THE PRESENT CONDITION OF THE CAPITAL AND INDUSTRY OF THE COUNTRY

The facts which constitute an answer to this question are to a considerable degree contradictory and paradoxical. On the one hand there is much that indicates that the country is rapidly recovering from the effects of the war, and resuming that wonderful career of progress and development which especially characterized its history during the period embraced in the thirteen years from 1847 to 1860. On the other hand there is another class of facts which as unmistakably indicate the existence of agencies which tend to arrest or obstruct national development, and which foster speculation, idleness, extravagance of living, discontent with moderate and slow gains, haste to be rich, and the spirit of trading as distinguished from the spirit of production.

It is proposed, in the first instance, to briefly state the evidence in support of the first proposition; and although this evidence has been presented in great part already by the Commissioner in his two previous reports; yet a recapitulation of the leading elements of national wealth, on which rest the elements of national credit, can

never be considered as untimely so long as a distrust of the resources of the nation is for any purpose fostered and encouraged—particularly by persons holding official or other public positions. This evidence may be grouped as follows:

FIRST: IMMIGRATION.—From the 1st of July, 1865, to the 1st of December, 1868, about 1,000,000 natives of foreign countries have sought a permanent home in the United States. Investigations made some years ago (since when the character of the immigration has greatly improved), showed that these immigrants bring with them specie or its equivalent to the average amount of eighty dollars per head; while their average value to the country as producers cannot be estimated at less than half the average value of an ordinary laborer in the south prior to the war, viz: \$1,000 each. Immigration, then, since the termination of the war, may be regarded as having added \$80,000,000 directly, and \$500,000,000 indirectly, to the wealth and resources of the country.

SECONDLY: A GENERAL INCREASE IN THE PRODUCTS OF DOMESTIC INDUSTRY.—The Commissioner is fully aware of the difficulties attendant upon the determination of estimates in this department; prices, with the present irredeemable, fluctuating currency being wholly valueless as a measure; while a statement of quantities, to be strictly accurate, must be considered not only with reference to quality, but also to the normal increase in production, which under all circumstances accompanies an increase of population. Nevertheless, the wealth of the country is its capacity for annual production; and an analysis of this production is the surest, and at present the only, available method of testing that wealth.

Speaking generally, however, in the first instance, the Commissioner asserts that all the available data tend to establish the following conclusion, viz: That within the last five years more cotton spindles have been put in operation, more iron furnaces erected, more iron smelted, more bars rolled, more steel made, more coal and copper mined, more lumber sawed and hewn, more houses and shops constructed, more manufacturing of different kinds started, and more petroleum

collected, refined, and exported, than during any equal period in the history of the country; and that this increase has been greater both as regards quality and quantity, and greater than the legitimate increase to be expected from the normal increase of wealth and population.

To support this general statement, the following specific evidence may be adduced:

1. *Cotton manufacture.*—The number of cotton spindles in the United States, according to the census of 1860, was 5,235,727. From 1860 to 1864 there was little or no increase of cotton machinery, but possibly a diminution—many mills, under the great demand for army clothing, having been converted into establishments for the manufacture of woollens. The number of spindles, however, at present in operation, is shown by the recent returns of the American Cotton Manufacturers and Planters' Association to be about 7,000,000, a gain of 31–78 per cent. in from four to five years, and mainly since the termination of the war in 1865. An estimate, based on less perfect data, given in the last annual report of the Commissioner, fixed this increase at only from 15 to 20 per cent.

2. *Woollen manufacture.*—Imperfect statistics, collected by the Northwestern Woollen Manufacturers' Association, show the increase in the woollen manufacture of seven States of the west, viz., Ohio, Michigan, Indiana, Illinois, Wisconsin, Iowa, and Minnesota, to have been since 1860, as follows:

	No. of establishments	Capital invested	Sets of machinery
1860 ....	259	\$1,616,740	294
1868 ....	557	5,448,000	995

3. *Pig iron production.*—In the department of iron industry the Commissioner would again call attention to the fact stated in his previous report, that the recent average annual increase in the production of pig iron is remarkably uniform and greatly in excess of the ratio of increase of population; the latter, at the present time, being assumed at about the ratio of increase from 1850 to 1860, viz.,  $3\frac{1}{2}$  per cent., while the annual increase in the product of pig iron, during the last five years, has been as follows:

*Annual product of pig iron from 1863 to 1868*

	Tons	Annual increase
1863 .....	947,604	
1864 .....	1,135,497	19.82 per cent.
1866 .....	1,351,143	9.50 per cent.
1867 .....	1,447,771	7.16 per cent.
1868, (estimated) ....	1,550,000	7.06 per cent.

For the seven years from 1860 (when the production was 913,770 tons) to 1867, the average annual increase has been 8.35 per cent.

This increase is in excess of the present average annual increase of the pig iron product of Great Britain, which since 1863 has been as follows:

	Tons	Increase
1863 .....	4,510,040	
1864 .....	4,767,951	5.71 per cent.
1865 .....	4,819,254	1.08 per cent.
		Decrease
1866 .....	4,523,897	6.50 per cent.

4. *Copper.*—The product of the copper mines of Lake Superior from 1860 to 1867, inclusive, is returned as follows:

	Tons
1860 .....	6,000
1861 .....	7,400
1862 .....	9,062
1863 .....	8,548
1864 .....	8,472
1865 .....	10,790
1866 .....	10,375
1867 .....	11,735

During the same period the copper product of Great Britain largely declined, viz: from 15,968 tons in 1860, to 11,153 tons in 1866, and 10,800 tons in 1867.

5. *Petroleum.*—In 1862 the export of petroleum was returned at 10,887,701 gallons.—During the years 1864 and 1865, with the advantage of a high premium on gold, the export increased to an average of about 30,000,000 gallons. In 1867 the export was 67,052,020 gallons, and for 1868 the export to December 18 is returned at 94,774,291 gallons.

6. *Coal.*—The recent increase in the production of anthracite coal, which may be taken as a measure of the product of all American coal, is reported as follows: 1862, 7,499,550 tons; 1866, 12,379,490 tons; 1867, 12,650,571 tons; 1868, to December 12, 13,500,000 tons. During the past year the supply of anthracite coal has been seriously affected by strikes and constant interruptions of labor; otherwise there is no reason to doubt that the aggregate product mined would have shown a much larger increase than has been indicated. But as the case stands the increase which has actually taken place proves that the conditions of ability to consume—which conditions are mainly industrial—have not been impaired, but have increased during the past year in about a three-fold ratio to the estimated increase of population.

7. *Lake tonnage.*—The following table, prepared for the Chicago Board of Trade, shows the recent increase of tonnage upon the northern lakes, (exclusive of canal boats,) for the years ending March 31, 1864, 1866, and 1867:

	Vessels	Tonnage	Increase
1864 .....	648	202,304	
1866 .....	997	251,077	24 per cent.
1867 .....	1,196	279,981	11 per cent.

8. *Consumption of sugar and coffee.*—In Europe, some measure of the prosperity of the people can, it is believed, be obtained by noticing the rise or fall in the consumption of certain articles which cannot be considered as belonging wholly to the catalogue of necessities, such as sugars, tea, coffee, &c. Making use of this standard, the following results are obtained:

The average monthly consumption of imported sugars for the eleven months ending November 30, 1868, as indicated by the distribution from the five principal Atlantic ports, was 82,149,760 pounds, as compared with 70,088,480 pounds for the corresponding period of 1867, and 68,296,600 pounds for that of 1865; while the average monthly consumption of coffee for 1868, deduced from the same data, has been 8,294 tons, as compared with 7,560 tons in 1867, and 5,999 tons in 1866.

THIRDLY: THE CONTINUED INCREASE IN THE AGRICULTURAL PRODUCT OF THE UNITED STATES, WHETHER MEASURED BY QUANTITY OR VALUE.—The aggregate crops of the northern States for 1867 were believed to be greater than those of any previous year, while the crops for the past year are known to exceed in quantity and quality those of 1867.

As specific evidence, a few statistics are presented which have recently been published on what seems reliable authority.

In the State of Ohio the recent increase of sheep, hogs, and cereals, is reported as follows:

Number of sheep in 1865 .....	6,305,796
Number of sheep in 1868 .....	7,580,000

In the eight years last past the sheep of Ohio are reported as having more than doubled.

Number of hogs in 1865 .....	1,400,000
Number of hogs in 1868 .....	2,100,000

Cereal crops, including wheat, corn, and oats:

	Bushels
1865 .....	107,414,278
1866 .....	118,061,911
1868 .....	141,000,000

The commercial return of the number of hogs packed at the west since the season of 1864-5, is as follows:

1865-'66 .....	1,705,955
1866-'67 .....	2,490,791
1867-'68 .....	2,781,084

As respects the agricultural products of the southern States, the returns collected by the association of cotton manufacturers and planters before referred to, show that the crop of 1867-8 was at least 2,500,000 bales, or about 65 per cent. of the average crop for the five years immediately preceding the war; while for the year 1868-9 the estimates are generally in favor of 2,700,000 bales. The results of the two crops upon the interests of the south will, however, be materially different. During the crop year 1867-8, the south did not raise food sufficient for its own subsistence, and a large part of the proceeds of the cotton of that year were used for the purchase of food, and also to repay advances for the previous purchase of stock and implements. This year, 1868-9, the south has raised food in excess of its necessities, and the proceeds of nearly the entire crop may be considered in the light of a surplus for future development.

The following are the estimated cotton crops of the south since the termination of the war:—1865-'66, 2,154,476 bales; 1866-'67, 1,954,988 bales; 1867-'68, 2,498,895 bales; 1868-'69, estimated 2,700,000 bales.

The culture of rice at the south, which at the termination of the war practically amounted to nothing, has also so far been restored that the product of the present year is estimated at 70,000 tierces; an amount probably sufficient for home consumption, and giving certain promise of a speedy renewal of the former extensive exports of this article.

The following is an estimate of the tobacco crops of the United States since 1850, prepared by a committee of the trade for the use of the Committee of Ways and Means, at the first session of the 40th Congress:

	Pounds
1850 .....	201,350,663
1863 .....	267,353,082
1864 .....	177,460,229
1865 .....	183,316,953
1866 .....	325,000,000
1867 .....	250,000,000

FOURTHLY: RAILWAY EXTENSION AND MOVEMENT.—The total number of miles of railroads in the United States at the close of 1835 was 1,098; at



the close of 1867, 39,244; giving an average increase of 1,156 for each year of the intervening period. The annual progress of railroad extension during and subsequent to the war is shown by the following table:

	Miles
1860 .....	1,846
1861 .....	621
1862 .....	864
1863 .....	1,050
1864 .....	738
1865 .....	1,277
1866 .....	1,832
1867 .....	2,227
1868 (estimated) .....	2,500

It will thus be seen that since and including the year 1865, the year of the termination of the war, nearly 8,000 miles of railroad have been constructed in the United States, and that the present ratio of increase is more than double the average of railroad history prior to 1860, (viz: 1,156 miles.)

On the other hand the average annual increase of railroads in Great Britain from 1860 to 1865 was only 571 miles, and in France during the same period 509 miles.

An analysis of the railway system of the United States, which has been made for the first time during the past year presents us, however, with results which, were they not founded on incontrovertible data, would seem fabulous. Thus the ratio of the gross earnings to cost of the railroads of the whole country for the year 1867 was equal to about 21 per cent.; for the northern States about 23 per cent. The railroads of the country, therefore, now receive their cost in a little more than four years, and this ratio of gross earnings to cost is steadily increasing with the increase of the railway system and traffic of the country.

Again, "the average number of tons of freight carried upon the railroads of the country is estimated at 2,000 tons per mile of road. The tonnage of the railroads of Massachusetts, in 1867, equalled 3,812 tons per mile; that of the railroads of New York, 3,100 tons; and that of Pennsylvania, 6,000 tons. The gross tonnage of the 39,284 miles of railroad in existence at the close of 1867, at the above estimate, was equivalent to 78,568,000, and if we deduct from this amount 15,000,000 tons for coal and other cheap material, and an equal amount for duplications of the same tonnage on different roads, there will be left 48,488,000 tons of merchandise moved annually upon all the railways of the United States. At an estimated value of \$150 per ton for this tonnage, the total annual value of the merchandise traffic

of all the roads at present equals \$7,273,200,000."

The total amount of tonnage transported on all the roads of the country for the year 1851, is estimated by good authorities at not exceeding 10,000,000 tons. If from this we deduct 3,000,000 tons for coal and other cheap materials, and 1,000,000 tons for duplications, there will be left a merchandise tonnage of 6,000,000 tons in 1851, against 48,488,000 tons in 1867. The rate of increase in this period, therefore, has been equal to 800 per cent., and the actual increase 42,488,000 tons. At the estimated value of \$150 per ton, the increase in the value of the railway merchandise of the country in sixteen years has been \$6,373,200,000, or at the rate of nearly \$400,000,000 per annum. And it should also be noted that one-half of this total increase has taken place in the seven years that have elapsed since 1860.

The increased movement on the railways of the United States, which in the main represents increased product, also affords some indication of the progress of the development of the country. Thus, the earnings of the ten principal railway lines of the west exhibit for the first ten months of 1868 (with a decrease rather than an increase of freight rates) a gain of eight per cent. as compared with earnings of the corresponding months for the year 1867. Taking also the movements on the railways and canals of the State of New York, which are known to be accurate, and at the same time accessible, as a measure of comparison for the whole country, we find that the total annual tonnage increased from 7,138,917 tons, in 1858, to 16,032,006, in 1868, an increase of 124 per cent.; while the annual value of the tonnage thus moved increased from \$486,816,505, in 1858, to \$1,723,330,207, in 1867, a gain of 254 per cent.

An examination of the railroad statistics of the whole country for the above period further indicates that during the ten years above referred to, or from 1858 to 1868, the increase of tonnage moved on the railways of the United States has been at a rate *sixteen times greater than the ratio of the increase of population.*

*Telegraphic extension.*—The recent extension of the telegraphic system of the United States is reported to be approximately as follows:

1866, miles of wire .....	2,000
1867, miles of wire .....	3,000
1868, miles of wire .....	6,000

#### AGENCIES CONCERNED IN NATIONAL DEVELOPMENT

One subject at this point of our inquiry is well worthy of attention. It is this: To what agencies

are our seemingly fabulous national development to be attributed, and to what extent especially is it to be referred to positive legislation?

In answer to this it is to be said that all investigation clearly shows that these agencies have been mainly two, viz: first, great natural resources in respect to abundant and fertile territory, great natural facilities for intercommunication, abundant and cheap raw material, and diversity without insalubrity of climate; and secondly, a form and spirit of government which heretofore has left man and capital, over an area almost continental, free and unrestrained to work out their own development. Since 1840, especially, other agencies have come in as powerful adjuncts, viz: a continued influx of population and capital from the old world; a continued invention and application of labor-saving machinery, and a most rapid extension of the railway system; which last, by giving a market to all the products of our national domain, has greatly stimulated the spirit of industry and enterprise. With these, also, should undoubtedly be included the purchase of California and the discovery of gold on the Pacific.

As respects the relation of legislation by the national government to the results under consideration, if we except the adoption of a liberal policy in the disposition of the public lands, it is difficult, at least for the period which elapsed between 1840 and 1860, to affirm much that is positive, unless, in conformity with the maxim, that that government is best which governs least, absence of legislation is to be regarded in the light of a positive good. If important results followed the acquisition of California, such results were certainly neither foreseen nor anticipated; while as regards commercial legislation, a review of all the facts cannot fail to suggest a doubt whether the evils which have resulted from instability have not far more than counterbalanced any advantage that may have proceeded from the experience of a fluctuating policy. . . .

#### EFFECT OF THE WAR IN CHECKING NATIONAL DEVELOPMENT

What would have been the condition of progress during the decade from 1860 to 1870, had not the war intervened, is a question that cannot be definitely answered; but that many branches of production would have experienced a development limited only by the amount of available capital and skilled labor cannot be doubted. . . .

But the war came, bringing with it certain inevitable results, and these results now constitute the *per contra* upon the national ledger before referred to. The feature about them which, in

contrast with the facts above cited, seems contradictory and paradoxical, is that while our resources as a nation have, on the whole, continued unimpaired; while we continue to possess and enjoy the greatest area of fertile territory, the most unrivalled means of intercommunication, natural or artificial, and the freest and most popular form of government; while the aggregate annual products of the soil have continually increased and not diminished, and those of the anvil, the forge, the loom, and the spindle have also multiplied; there, is, nevertheless, hardly a single domestic article or product, agricultural or manufactured, in behalf of which the claim, either directly or indirectly, has not been made within the last two years that the same could be produced to greater advantage or profit in some other country than the United States; increased protection even being demanded for oil paintings, rough building stone, Indian corn, fire-wood, bibles, and ice—the last to the extent of 15 per cent., gold; and this claim the Commissioner is obliged to admit is, to a very great extent, in exact accordance with the truth.

The United States finds itself, therefore, in the anomalous position of a great nation, favored in many respects as no other nation upon which the sun shines, unable to exchange its products on terms of equality with the products of any other country; the marked exception being always its product or supplies of the precious metals. Inquiry is now to be made into the causes to which these results must be attributed, and as to the measures which seem likely to prove remedial, avoiding in so doing, to the greatest extent possible, any repetition of the facts and arguments which have been presented by the Commissioner in his former reports, or by others who have discussed this subject; and aiming to present rather the results of a continued investigation and of an enlarged experience.

#### AGENCIES AVERSE TO NATIONAL DEVELOPMENT

The immediate cause of the anomalous condition of affairs in question must unquestionably be referred to the greatly increased cost of nearly all forms of labor and commodities as compared with the price for the same that prevailed in the decade immediately preceding the war; while these in turn must be regarded as the resultant mainly of three agencies growing out of the war, viz: *irredeemable paper currency; unequal and heavy taxation, and a limited supply of skilled labor*, the last manifesting itself at the present time in specialities rather than in general.

## INFLUENCE OF AN IRREDEEMABLE PAPER CURRENCY

As the specific influence of the first agency has been of late so often and so thoroughly discussed, the Commissioner will only ask attention, under this head, to a few points of presumed novelty or interest; and, first, to a specific statement of actual experience, illustrative of the manner in which an irredeemable paper currency, or what is the same thing, a national abnegation of specie payments, unavoidably tends to destroy all profitable commercial relations with foreign countries in which trade and industry is connected on a specie basis. The statement is furnished to the Commissioner by a manufacturer of furniture in one of the middle States, who, previous to the war, had built up an extensive export business to the West Indies, Central and South America, of a variety of "cane-seated" and "cane-backed" furniture suited to warm latitudes.

Thus on the 1st of March, 1861, gold and currency being at par \$1,000 in gold possessed a purchasing power sufficient to obtain for the South American importer 111½ dozen of what are termed in the trade, "ordinary square-post cane-seat chairs." About the 1st of January, 1862, gold began to command a premium, and advanced during the next three years with great rapidity. This movement was not, however, participated in at first, to any considerable extent, by either labor or commodities, and in consequence, the purchasing power of gold greatly increased; so much so that on the 1st of July, 1864, the \$1,000 gold which in 1861 bought 111½ dozen chairs, then bought 143 dozen. Under these circumstances, as was to be expected, trade increased, as the foreign purchaser found the American market by far the best for his interest; but from July, 1864, a movement commenced in an exactly opposite direction, gold receding and labor and commodities advancing in very unequal ratios. Thus in January, 1865, the \$1,000 gold, which four years previous had a purchasing power of 111½ dozen chairs, and on the 1st of July, 1864, of 143 dozen, then commanded but 126½ dozen; in February, 1866, a still smaller number, viz: 91½ dozen, and ultimately attained its minimum in January, 1867, when the purchasing power of the sum named was only 89½ dozen. From this point the purchasing power has gradually increased, and for the past year, 1868, has remained at the rate of about 102 dozen, or nine dozen less than could be bought with the same money in 1861.

The result has been that the foreign purchaser now goes to France or Germany; while the products of American industry, in the form of

furniture, being no longer available to exchange for sugars, spices, or dyewoods, gold has necessarily been substituted; and, to use the words of the manufacturer describing his condition, "unless there is a speedy return to specie payments, custom will soon fix the channels and currents of trade that any attempt on my part to divert them will be attended with great difficulty;" and what has thus been shown to be the case in respect to the export trade of the United States in furniture, may be accepted as true of almost every other manufactured product, which as a nation, we were accustomed, before the war, to exchange for foreign commodities.

COMPARISON OF PRICES OF LABOR AND COMMODITIES,  
1860-'61 AND 1867-'68

The present abnormal condition and the recent fluctuations in the prices of labor and commodities also properly comes up for consideration in connection with the subject of an irredeemable paper currency—the chief agency to which the disturbances in question must be referred.

The investigations previously instituted by the Commissioner have established the fact, that up to the commencement of the year 1867, the general effect of the agencies growing out of the war had been to occasion an average advance in the price of commodities to the extent of about 90 per cent., while the corresponding average advance in wages was not in excess of 60 per cent.

He has now to ask attention to the conclusions which another year's experience and investigation have brought to us in relation to this subject. The result of long and careful investigations in respect to the retail prices of the leading articles of domestic consumption by operatives in the manufacturing towns of New England, the middle, and some of the western States, have afforded data for accurately estimating the increase in the prices of such articles in 1867 as compared with 1860-'61. They establish the following conclusions:

That the average increase in the price of groceries and provisions in 1867, as compared with 1860-'61, was 88 per cent.; or, calculated on the basis of the quantities consumed on an average by a number of workmen, a little in excess of 86 per cent.; of domestic dry goods, including clothing, 86½ per cent.; of fuel, 57 per cent; of house-rent, 65 per cent. This latter average is, however, largely affected by the circumstance that in New England, where manufacturing companies or corporations very generally own the tenements occupied by their operatives, rents have not been advanced to any considerable ex-

tent. Excluding New England from the calculation, the average advance in rents for 1867, as compared with 1860-'61, must be estimated at a much higher figure. Thus in the smaller manufacturing towns of Pennsylvania the average increase in the rents of houses occupied by operatives is believed to have been about 81 per cent., and in New Jersey 111 per cent. In the cities of New York, Philadelphia, Newark, and Pittsburgh, the increase has been from 90 to 100 per cent.

The average of these results, proportioned to the ascertained varying ratio of expenditure under the several heads, shows that for the year 1867, and for the first half of the year 1868, the average increase of all the elements which constitute the *food, clothing, and shelter* of a family has been about 78 per cent., as compared with the standard prices of 1860-'61.

The result, in general, of this large increase in the prices of commodities of domestic consumption to the laboring man becomes evident, by comparing such increase with the increase in the rates of wages during the period under comparison—which rates, for the year 1867, as compared with 1860-'61, were as follows: For unskilled mechanical labor, 50 per cent.; for skilled mechanical labor, 60 per cent. . . .

The returns to numerous and careful inquiries, instituted at the request of the Commissioner, by proprietors or superintendents of manufacturing establishments in the New England, middle, and some of the western States, also afford much interesting information relative to the average weekly earnings and expenditures of American operatives, grouped as families, in the years 1860 and 1867; and also in respect to the comparative opportunities enjoyed by such families at the two periods referred to, for the realization of a surplus over and above the expenditures absolutely necessary for shelter and subsistence.

The following table, based on indisputable and actual data, shows the average aggregate weekly earnings in 1867 of families of various sizes, in different sections of the country; one or more members of each of which were employed in some branch of manufacturing industry; their average weekly expenditures for provisions, fuel, house-rent, &c., and the balance remaining to them, over and above such expenditure, available either for accumulation and capital, or for the purchase of clothing, or articles of employment and luxury.

In order to obtain the data for further comparisons, and especially to determine whether the large increase in wages in 1867-'68, has brought any real net gain to the employees of manufacturing establishments, a careful investigation was instituted in respect to the earnings and expenditures of individuals and families in 1860, similarly situated in all respects with those whose average aggregate weekly receipts and expenditures were given in the above table for 1867; and in so doing it has fortunately happened, that through the earnest co-operation of several proprietors or agents of manufacturing establishments, the data in respect to 1860 have been obtained, in many instances, from the same specific individuals or families which supplied the information relative to 1867. These data, carefully verified by reference to contemporary price-currents and other evidence, have afforded the means of constructing the following. [Table on p. 733.]

In constructing the following table it has been assumed for purposes of comparison, (and so expressed in the third column of the table,) that the total average weekly wages obtained in 1867, viz.: \$18 96, were entirely expended, and in the following proportions: \$14 29 for provisions, rent, fuel, &c., and the balance, \$4 67, for clothing, domestic dry goods, housekeeping articles, luxu-

*Average aggregate weekly earnings in 1867 of families*

Size of Families	Average weekly expenditures for provisions, house-rent, &c.	Average weekly earnings	Surplus for clothing, housekeeping, goods, &c.
Parents and one child .....	\$10 24	\$17 00	\$6 76
Three adults .....	8 35	17 52	9 17
Parents and two children .....	12 26	18 75	6 49
Parents and three children .....	15 02	19 50	4 48
Parents and four children .....	17 79	23 33	5 54
Parents and five children .....	15 23	17 11	1 88
Parents and six children .....	11 67	13 50	1 83
Parents and seven children .....	23 78	25 00	1 22
General average of the above .....	\$14 29	18 96	4 67

*Table showing the average weekly expenditure of families of varying numbers in the manufacturing towns of the United States for the years 1860 and 1867, respectively*

Size of Families	Average weekly wages		Average weekly expenditures for provis'ns, house rent, clothing, &c.		Surplus in 1860
	In 1867	In 1860	In 1867	In 1860	
Parents and one child .....	\$17 00	\$12 17	\$17 00	\$9 96	\$2 21
Three adults .....	17 52	12 00	17 52	10 31	1 69
Parents and two children .....	18 75	11 50	18 75	10 79	71
Parents and three children .....	19 50	12 41	19 50	11 33	1 08
Parents and four children .....	23 33	14 15	23 33	13 18	97
Parents and five children .....	17 11	10 37	17 11	9 46	91
Parents and six children .....	13 50	9 50	13 50	7 67	1 83
Parents and seven children .....	25 00	15 17	25 00	14 09	1 08
General average of the above .....	18 96	12 16	18 96	10 85	1 31

ries, &c. Now the same quantities and qualities of provisions, groceries, clothing, rent, fuel and housekeeping articles, could have been obtained in 1860 and 1861 for the respective sums indicated in the fourth column; showing an average weekly cost of \$10 85 in 1860, as compared with \$18 96 in 1867; and leaving a balance in the former year of \$1 31 (gold) per week in favor of the operative, as against no accruing surplus whatever in 1867-8; or, in other words, supposing the requirements for food, clothing and shelter to have been the same in 1867 as in 1860, the operatives referred to in the table, who received in 1867 an average of \$18 96 per week, obtained in that year only sufficient to give them the actual necessities and comforts of life; while the same men, whose average weekly wages in 1860-'61 were only \$12 16, obtained with such earnings at that time the same articles of comfort or necessity, and had in addition a surplus of \$1 31 (gold) per week, or \$68 12 (gold) per annum.

As already stated, it has been assumed in this comparison that the wages received by the operatives in question during the year 1867 were wholly consumed in their living. To a very considerable extent it has been found that this assumption is justified by facts; but if, in view of the constant increase of deposits in savings banks and other evidences of accumulation, it should appear that a margin on an average has been saved, the figures presented show with equal certainty that on the same scale of living, the margin in 1860 must have exceeded that of 1867 in the proportions indicated. The fact, therefore, is established by incontrovertible evidence, that the condition of working men and women in a majority of the manufacturing towns of the United States is not

as good at the present time as it was previous to the war, notwithstanding that their wages are greater, measured in gold, in 1867-'68 than they were in 1860-'61.

It should also be noted that most of the persons whose wages and expenditures have been discussed, were classed as skilled workmen, receiving an advance in wages of about 52 per cent. in 1867, as compared with the amount received in 1860. If their condition has not improved, the condition of the large class of unskilled workmen, such as day laborers, teamsters, watchmen, and the like, is even worse. Thus careful examination and comparison of a large number of returns from the proprietors or superintendents of furnaces, mills, foundries and factories of every description in almost all sections of the United States establishes the fact, that the average weekly wages of laborers and other unskilled workmen for the years 1860-'61 and 1867-'68, respectively, were as follows: 1860-'61, \$6 04 per week; 1867-'68, \$9 54. . . .

#### GENERAL INFERENCES

Finally, from the results of investigation which have thus been presented, we may draw the following conclusions:

The aggregate wealth of the country is increasing, probably, as rapidly as at any former period; yet it does not follow that there is the same increase in general prosperity. The laborer, especially he who has a large family to support, is not as prosperous as he was in 1860. His wages have not increased in proportion to the increase in the cost of his living. There is, therefore, an inequality in the distribution of our annual product,

which we must, in no small degree, refer to artificial causes. This inequality exists even among the working classes themselves. The single man or woman, working for his or her support *alone*, is in the receipt of a rate of wages from which savings may be made equal, or greater than ever before, especially in the manufacturing towns, where the price of board is, to a certain extent, regulated artificially by the employer. Unmarried operatives, therefore, gain; while those who are obliged to support their own families in hired tenements lose. Hence, deposits in savings banks increase, while marriage is discouraged; and the forced employment of young children is made almost a necessity in order that the family may live.

Now whence comes this inequality, and this unnatural distribution of the results of labor? The student of political economy would predict *a priori* that such must be the result of the enforced use of a fluctuating measure of value, viz: inconvertible paper money. It would be predicted *a priori* that the use of such money involves a most oppressive tax, which falls heaviest upon the laborer and lightest upon the owner of capital. Antagonism is produced where none ought

to exist; the capitalist is forced to charge an additional profit for the increased risk involved in the use of a false measure of value, and the consumer of the commodity is forced to pay for such risk. There is no dishonesty to be inferred, and no injustice which the honest capitalist can avoid, so long as the law is as it is; he must either cover all risks, or withdraw his capital entirely from industrial enterprise.

It has been well said that there can be no true theoretic conclusion which will not be proved by the facts whenever the theory can be applied. We have given the theory of the effects of inconvertible paper money, and we find that the facts prove it. *The rich become richer and the poor poorer.*

In addition, however, to an inconvertible paper currency, there are other agencies which are powerfully operating to the production of a like result; and the consideration of these brings us to a new department of our investigation, viz.: *The influence of taxation*, direct and indirect, upon the cost of domestic production, and consequently upon the ability of the country to exchange with foreign nations upon terms of equality. . . .

# AMERICAN PROBLEMS

## SETTLING THE NORTHWEST

WITH THE WAR OVER, the United States turned its attention seriously to settling its great continental domain. Homesteadism, in 1862, had been added to the land policy of the country; great railroads were being built; and now immigrants had to be attracted. Both the Federal government and the states engaged in this task, flooding Europe with tracts and pamphlets—and sending agents, too—which told of the promise of American opportunity.

Among the states none was more eager for settlers than Minnesota, which had been part of the Union for more than a decade, but which in the seventies still belonged to the “new” West. Minnesota established a State Board of

Immigration to inform all the world of her advantages. Year by year, the board distributed close-printed pamphlets crammed with facts and figures to prove that the man who left his home elsewhere would find happiness in Minnesota. By 1878, that appeal was being made in terms which show the lingering effects of the panic of 1873. Those who have lost in other places can still “make good” in Minnesota, where land is cheap and yields great crops, where state funds provide education, and where liberal exemption laws protect the homeseeker.

The selection here reprinted is from one such pamphlet called *Minnesota, the Empire State of the New Northwest* (St. Paul, 1878).

### *Minnesota, the Empire State of the New Northwest*

LANDS FOR THE LANDLESS. HOMES FOR THE HOMELESS

GOVERNMENT LANDS. THE AMOUNT STILL VACANT

I AM INDEBTED to Gen. James H. Baker, Surveyor-General of Minnesota, for the following valuable article on this subject. The General says:

“To post the books and see just where we stand in the disposition of our lands, we find that we came into the inheritance of a vast domain, containing 53,449,840 acres; deducting the water areas, 7,700,000 acres, we had 50,749,840 acres of land, including Indian reservations. Of these lands 39,822,418 acres have been surveyed, leaving 11,467,222 acres yet to survey. Of these surveyed lands the following disposition has been made, and this table will not be found elsewhere, and has been prepared with great care from official sources:

Disposition of Surveyed Lands	Acres
Cash sales and warrants .....	8,920,285.70
Homestead and timber culture acts .	5,829,042.64
Agricultural college lands .....	1,033,908.75
Railroad grants (certified) .....	7,621,131.22
Swamp selections (approved) .....	1,361,125.13
Internal improvement .....	500,000.00

Schools .....	2,969,990.00
Universities .....	92,548.35
Indian scrip .....	244,672.29
Float scrip .....	400.00
Salines .....	26,435.00
Public buildings .....	6,400.00

Grand Total ..... 28,605,939.08

NOTE.—These returns are up to June 30, 1877, except railroad lands, which are up to Dec. 31, 1877.

Of the thirty-nine millions of acres of surveyed lands, it will thus be observed that 28,605,939 have been disposed of, leaving 10,676,479 acres of the surveyed portion of the State yet undisposed of, and of both the surveyed and unsurveyed areas of the State, leaving a balance of 22,143,901 acres yet subject to disposition. The surveyed lands embrace the cream of our agricultural areas. Those which are in the hands of actual settlers go to create the State and fulfil their highest mission. Those which have gone as gratuities have been given with a lavish hand. But the bank account in that direction is about closed; and but few more checks can be drawn. The area yet to survey will bring to the market a few agricultural lands in the

counties of Polk and Pembina, some valuable pine on the tributaries of St. Louis and on waters flowing north to the Rainy Lake series, and, it is fully believed, rich minerals on the north shore of Lake Superior. In that superb lacustrine region will also be found the Switzerland of America, amid whose romantic lakes the tourist of the future will find division and health." . . .

## RAILROAD LANDS

Northern Pacific, 1,615,000 acres; Winona & St. Peter, 1,160,000; Saint Paul & Duluth, 1,200,000; Saint Paul & Pacific, 1,120,000; Saint Paul & Sioux City, 850,000; Hastings & Dakota, 325,000; Chicago, Milwaukee & Saint Paul, 460,000; Southern Minnesota, 200,000. Total, 6,932,000 acres. Rapidly as the lands of all kinds have been taken up during the past winter and present spring, it will be seen that there are still left some *Thirty-one million five hundred and seventy-six thousand acres* subject to entry under the homestead, pre-emption and tree culture acts; with State school lands and railroad lands for sale by the above eight railroads. Much of all this land is equal in quality to any in the State, and situated convenient to many railroads already in operation.

## PUBLIC LANDS

## DIRECTIONS HOW TO OBTAIN THEM, FROM AN OFFICIAL SOURCE

Citizens of the United States, or persons who have declared their intention to become such, who are heads of families or over the age of 21 years, can obtain public land of the United States under the homestead, pre-emption, or timber culture acts, in the following manner, viz.:

*First.*—A citizen, or one who has declared his intention to become such, can homestead 160 acres outside, or 80 acres inside, the ten mile limits of any railroad grant, by filing his application and affidavit, and within six months thereafter commencing settlement and improvement, and continuing the same five years.

*Second.*—A soldier having served in the army or navy during the war of the rebellion for over ninety days can obtain 160 acres of any of the public lands by filing, himself or by an attorney, a declaratory statement, and within six months thereafter filing his affidavit and application commencing settlement and cultivation, and continuing the same for five years, *less the time he served in the army or navy.* His widow can take advantage of the above. In case of his death in the army, the term of his enlistment is deducted.

*Third.*—A citizen or person who has declared

his intention to become such, is entitled to 160 acres under the pre-emption law, by commencing settlement thereon, and within ninety days thereafter filing a declaratory statement continuing such settlement and improvement. And any time after six months or within thirty-three months from date of settlement, making proof and payment for the same at the rate of \$1.25 outside, and \$2.50 per acre inside, the ten mile limits of any railroad grant.

A person qualified as before can file his application and affidavit for 160 acres, (under the timber culture act,) of any of the public lands that are naturally devoid of timber, (provided that only one-fourth of any section can be taken under this act,) and by breaking, planting, and keeping in growing condition forty acres of timber, the trees not to be more than twelve feet apart each way, for a period of eight years, will be entitled to patent for the 160 acres. A bill has passed the United States Senate, and will become a law, reducing the number of acres to ten, and requiring that the trees shall be planted 4 feet apart instead of 12 feet.

The government fees for entries under the several acts mentioned, are as follows, viz.:

## HOMESTEAD

160 acres inside 10-mile limits.....	\$18 00
160 acres outside 10-mile limits.....	14 00
80 acres inside 10-mile limits.....	14 00
Soldier's declaratory statement.....	2 00

## PRE-EMPTION

Declaratory statement .....	2 00
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## TIMBER CULTURE

For all entries, irrespective of area, inside or outside 10-mile limits .....	14 00
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Over 28,000,000 acres are now disposed of, leaving over 22,000,000 acres, nearly half of the land area of the entire State—for the landless and poor of all nations of the earth to enter in and possess. Here is a domain abounding in all the elements of health, beauty, and fertility—an area larger than many of the principalities of Europe, which awaits the developing hand of the frugal and industrious among all classes and conditions of men.

## FREE FARMS IN MINNESOTA

Under the provisions of the homestead law the land thus acquired without cost is exempt by law from liability for all debts previously contracted. This privilege of obtaining free farms under



the homestead law is shared by women, whether widows or unmarried ladies, equally with men.

Minnesota invites the honest and industrious, however poor and friendless, to make themselves free homes; also those who have wealth; the well to do class, and those of moderate means. The manner in which this may be done is pointed out as follows:

#### LAND OFFICES

For the convenience of all who may wish public lands, nine government land districts have been established in the State, in each of which is a land office. In each of these are two officers, called Register and Receiver, who conduct the business. . . .

#### STATE LANDS

The sixteenth and thirty-sixth sections in each township have been granted by Congress to the State, for the support of common schools. The total amount thus acquired will eventually reach 3,000,000 acres. Minnesota has also received about 83,548 acres in aid of the State University and 94,439.28 acres of Agricultural College lands. An excellent system for the gradual sale of these lands has been devised. They are placed under the control of the State Auditor, as Land Commissioner, and provision is made for their appraisal at a price not below \$5 per acre, and each year a quantity of these lands is offered at public sale in the several counties. The purchaser is required to pay in cash 15 per cent. of the amount of his bid for prairie land, and 20 to 75 per cent. for timber land, according to the value of such timber. On the remainder of the purchase money the purchaser is granted a credit of twenty years at 7 per cent. interest, payable yearly in advance; or he may at any time within that period pay the whole amount, receive a deed at once, and thus stop the accruing of interest.

These advantageous terms attract crowds of purchasers at the annual sales. The small sum required in cash enables the purchaser to employ his means for the improvement of the land, and frequently the profits of a single crop cover its original cost, while the land generally increases in value many fold long before final payment is required.

The public sale of 80,000 acres of State, School, University and Internal Improvement lands at Redwood Falls, on the 13th of May, 1878, offers a splendid chance to those who want to make homes in a settled community, where all the great markets are accessible by railroad.

#### CLASSES OF PUBLIC LANDS

There are three classes of public lands—

1st. All lands outside the limits of the lines of the several land-grant railroads in this State. These are held at \$1.25 per acre.

2d. All public lands comprising the even numbered sections within the limits of railroad grants, which are \$2.50 per acre.

3d. The lands formerly reserved for the Sioux Indians, which, until offered for sale, are subject to pre-emption by actual settlers at their appraised value.

The two first may be had at all the land offices, and the third at the New Ulm, Benson and Redwood Falls offices only.

#### THE HOMESTEAD ACT

In May, 1862, Congress passed the Homestead Act. The main features of the bill are, that all lands owned by government are open to settlement, in parcels not exceeding 160 acres to each person.

The bill requires a permanent residence of five years upon the land. The applicant should be the head of a family; or over 21 years of age, or have performed service in the United States army, in which case he may be a minor.

He must not have borne arms against the United States, or have given aid and comfort to his enemies.

He must be a citizen of the United States, or have declared his intention to become such.

Each quarter section of the millions of acres of her unoccupied lands needs an actual settler, to give beneficent action to the idle richness slumbering in her black soil, and convert prairie and meadow into fields of ripening grain, for the supply of the granaries of the world. How princely that act of Congress which secures to the poor man a farm, upon the simple condition of laboring five years in his own service. Mighty conquerors have often divided the conquered territory amongst their favorite chieftains, but America acquires territory by purchase, and distributes it among the landless of all nations. . . .

#### HOMESTEAD EXEMPTION

A very liberal law exists in Minnesota for the protection of the homes of her people against the effect of sudden reverses by which innocent families are liable to be thrown houseless upon the world's cold charities. The following is the language of the law of this State exempting homesteads from liability for debt:

"That a homestead consisting of any quantity of land, not exceeding eighty acres, and the dwelling-house thereon and its appurtenances, to be selected by the owner thereof, and not included in any incorporated town, city, or village, or instead thereof, at the option of the owner, a quantity of land not exceeding in amount one lot, being within an incorporated town, city or village, and the dwelling-house thereon and its appurtenances, owned and occupied by any resident of this State, shall not be subject to attachment, levy or sale, upon any execution or any other process issuing out of any court within this State. This section shall be deemed and construed to exempt such homestead in the manner aforesaid during the time it shall be occupied by the widow or minor child or children of any deceased person who was, when living, entitled to the benefits of this act."

Thus, without regard to cost—whether it be a cottage or a palace—the sanctities of home are guarded by the protecting arm of the law.

It is not improbable that advantage is sometimes taken of the liberal provisions of this law to cover the knaveries of dishonest men. This is a liability from which few humane laws are exempt; but there can hardly be serious danger in enactments which merely err on the side of mercy.

There is also a liberal exemption on personal property, consisting of the family Bible, pictures, school books, musical instruments, church pew, cemetery lot, all wearing apparel, beds, stoves, and furniture not exceeding \$500 in value; also a certain number of cows, sheep, and working team, with a year's food for the same; a wagon, sleigh, and farming implements not exceeding \$100 in value; also a year's supply of family provisions, or growing crops, and fuel, and seed grain not exceeding 50 bushels each of wheat and oats, 5 of potatoes and 1 of corn, also mechanics' or miners' tools, with \$400 worth of stock-in-trade, and the library and implements of professional men.

#### RATE OF INTEREST

When not specified, the rate of interest in this State is understood to be seven per cent.; but any rate is legal which may be agreed upon and expressed in writing, not exceeding twelve per cent. per annum.

#### LEGAL PRACTICE

Pleading in this State is according to what is known as "the code," substantially as practiced in New York.

#### EDUCATIONAL FACILITIES

##### STATE UNIVERSITY, NORMAL AND COMMON SCHOOLS

No State enjoys more munificent provision for the education of her people than Minnesota. Very early steps were taken in behalf of several important measures for its promotion.

##### UNIVERSITY OF MINNESOTA

This Institution, which is surpassed by but few in the country, is located at Minneapolis. It is provided with excellent and carefully selected instructors, and occupies a series of elegant and commodious buildings. It is associated with the Agricultural College of the State, and both Institutions are generously endowed by a Congressional appropriation of public lands.

Both sexes are admitted to its privileges, and the enrollment at present is: gentlemen, 211; ladies, 93; total, 304.

This University was the first in this country to admit ladies on equal terms. Its example has been followed by those of several other States. Its property is worth one million, and its permanent fund is \$368,000. Hopeful as is this view of its condition, it is in the practical achievements of the Institution in the noble work for which it was established that we may most indulge an honest pride.

The devoted efficiency of an able faculty, the assiduity of a superior class of students, and the generally harmonious working and inviting outlook of the Institution are all matters for public congratulation.

##### NORMAL SCHOOLS

Three normal schools are in operation, viz.: The first at Winona, second at Mankato, and third at St. Cloud.

Cost of buildings.....	\$222,000
Enrollment of pupils.....	996
Total number of graduates.....	548

Boys and girls are admitted on equal terms in all our Normal and Common Schools and Colleges. Women are allowed to vote on all school matters throughout the State.

There are also various academies, graded schools and high schools in different parts of the State, in which are taught the higher branches of learning.

Excepting those older States, containing the first class, richly endowed colleges, no section of the Union affords better facilities than Minnesota for acquiring a thorough education, all free of expense.

## THE COST OF MAKING A HOMESTEAD

A settler who resides in Lincoln County, in the extreme southwestern part of the State, sends to the "Workman," at St. Paul, the cost of his homestead, as follows: He took a soldier's claim, which cost \$15.00, government fee; railroad round trip ticket, \$12.50; two yoke oxen, \$200.00; wagon, \$55.00; breaking plow, \$23.00; ordinary plough, \$17.00; harrow, \$10.00; house, 14x16 feet, materials, \$27.00, built it himself. He broke 15 acres of land last fall, \$45.00, which he now has sown in wheat. He has broken 5 acres this spring to plant in corn and potatoes. He has laid in a stock of provisions for six months at \$48.00, for a family of four—himself, wife and two children. Wood \$1.75 a cord. He had his own furniture, the freight was \$25.00. Total, \$482.55.

Another in the Valley of the Red River of the North sends the following:

"Government fee \$9.00; colonization ticket, \$8.30, a person from St. Paul to Moorhead; one car load of furniture and goods, \$50, at colonization rates. To build a house 16x18, \$50; common lumber, \$18 to \$20; breaking plow, \$25; harrow, \$10; one yoke of oxen, \$100 at St. Paul, one pair of swine, \$3.00; one-half dozen chickens, \$3.00; common furniture, \$30.00; one cow, \$35; provisions for a family of four, to last six months, \$50. Total \$478.20."

Here are some prices throughout the State—lumber, \$15 per thousand. Good fence posts \$8 per hundred. Oxen \$75 to \$100 per yoke. Cows \$20 to \$35. Farm horses \$75 to \$125 each. First breaking costs from \$2.50 to \$3.00 for clean prairie; \$5 to \$8 for brush land.

The first crop will in many cases pay for the breaking, seeding, and the entire cost of the land; and will in all cases pay cost of breaking twice over.

These prices will afford sufficient clue to allow of close estimates for different scales of operations. On wheat, there is usually a profit of from \$4 to \$15 per acre; but wisdom teaches a diversification of husbandry which places the farmer beyond the vicissitudes of a single crop.

Thus it will be seen that, with the outfit of a few hundred dollars, one can make a start on the new lands of Minnesota; and, if wanting even this small capital, he need not be discouraged if he have health and strength; these, with habits of industry and economy, will surely overcome all obstacles. The history of pioneer life abounds in instances of penniless settlers who in a few years acquired a *comfortable independence*.

At the present time one can earn money enough to pay the initiative sum and make the improvements which would constitute occupancy of the land; and by alternately working for himself on the homestead, and for others during the harvesting, or in the pinneries in the winter season, he may build his house and purchase stock and tools, and by the time the five years have elapsed, find himself the owner of a good home, surrounded by the comforts of life, with a sure title to a farm growing more profitable as improvements are added to it, and more valuable as farms and improvements multiply around it.

True, in the outset, it will cost self-denial of present gratification, much hard labor and close-calculating economy; but without these what great result was ever obtained? The satisfaction of having the noble purpose of acquiring a competency and comfortable independence of the ills of poverty would to a noble soul be compensation adequate to long years of servitude. And yet it is believed that the most indigent settlers, in the first years of pioneer life, scarcely endure more of privation, toil and hardship than falls to the lot of the majority of laborers and common mechanics of the Eastern States, who toil on year after year for a mere subsistence, with no prospect of anything better in the future.

A laboring man in the cities and larger towns pays from \$50 to \$100 yearly rent for a tenement as devoid of pure air and sunlight as it is in convenience, a sum which, if saved for one year, would make him the owner of a healthy house on the prairies of Minnesota; whilst the remainder of his hard earned money, increased by the earnings of his wife, and under her prudent management, scarce suffices to procure food, clothing and fuel for the dependent little ones in good times; when business is checked, or sickness comes, suffering is the inevitable consequence.

To such Minnesota offers home, comfort, and ultimate wealth, upon the sole condition of a few years of patient toil and well directed effort. Nor to these only are such offers made; they extend to the millions of the old world, groaning in misery, driven to despair by bad government, burdensome taxation, surplus of labor, and deficiency of the means of subsistence—to all such is made the same generous offer.

## WHEN TO COMMENCE

The most favorable time for opening a farm must be determined by circumstances. Many come in the months of September and October. This is the better time for those who have the

means for a comfortable subsistence. It gives them leisure to select a good location and build a house before snow covers the ground, and the advantage of the winter months to get out fencing and to prepare to commence farm work as soon as spring opens. . . .

The present is a more favorable time for immigration to Minnesota than any past period of her history. Some of the richest sections of the country are more easily reached which a few years ago were very difficult of access for want of roads. Other portions have long been vacated by Indians, and those rude natives who were always an annoyance to the early settlers, have long since been far removed and almost entirely forgotten.

Especially is this a favorable opportunity for the emigrant from foreign countries. Grim visaged war at home. Peace, prosperity, happiness, here.

Under the former law of Congress, the payment of \$200 for 160 acres of land was required of the settler whenever it was offered for sale. Many found themselves unable to raise this sum except by hiring money at a high rate of interest on mortgage of the land, when the financial crisis of 1857, occurring soon after, left them no alternative, and the land with its improvements went to satisfy the creditor. The Homestead Act precludes the possibility of a recurrence of similar embarrassments in the future.

Still, the emigrant of to-day will find his share of difficulties to encounter. Hard work, and careful management for the first few years, are indispensable. An occasional drought may pinch his crop, frost will probably sometimes, but very rarely, nip his corn and potatoes. Pigeons and black birds may gather some of his grain, and gophers help themselves to his root crops. Yet with all, he may rely on an abundant supply of food, and other necessities of life—a good home, and a reasonable prospect of ultimate wealth.

#### WHAT MONEY CAN DO

Of course capital, directed by sagacity and enterprise, possesses great advantages in Minnesota as elsewhere; indeed the new avenues being continually opened by the rapid development of a bountiful new country, multiply the opportunities for its profitable employment. There is scarcely a reputable vocation of any kind wherein the same capital and good management which insures success in Eastern communities, will not yield far greater returns here. Judicious investments in real estate, owing to the rapid settlement and development of the country, are sure to realize large profits.

#### WHAT PLUCK AND MUSCLE MAY DO

Great as are the unquestionable advantages which a union of money and industry possesses, there is no country where unaided muscle, with a plucky purpose, reaps greater rewards than under the bright skies and helpful atmosphere of this fair land. Feeling himself every inch a man as he gazes upon the unclaimed acres which shall reward his toil, the settler breathes a freer air, his bosom swells with a prouder purpose, and his strong arms achieve unwonted results.

Minnesota is emphatically the place for men whose capital consists of brawny arms and brave hearts. Any man possessing these may do as thousands who have little else, annually do in this State—select a homestead, in some one of the many beautiful and fertile regions into which railroads are rapidly penetrating, and, by the time he produces a surplus, the railroad is at his door to take it to market—he finds himself not a lone settler, encountering the hardships of frontier life, but in daily communication with the busy world, and the proud possessor of a valuable farm which has cost him little but the sweat of his brow.

#### WHO SHOULD COME TO MINNESOTA

Young people of either sex, however poor in cash, if rich in courage, hope and strength, may be encouraged to come to Minnesota at all times. It may not be advisable for those advanced in years, or those who are comfortably settled in old and well-established communities, to incur the hazards incident to a removal to a new country. And it should be further understood that the wholly destitute will encounter at first greater hardships here than those they seek to escape. Northern countries are usually more prosperous than those of languid climates, largely because of the greater stimulus the energies receive in guarding against hunger and want, for which reason it is, of course, more difficult for the feeble and destitute to find maintenance; but to the thousands in the older States and in foreign countries, whose only resource is the labor of their hands, who, on looking around, see every avenue to manly independence thronged by jostling multitudes, and the only alternative left them emigration or dependent labor; to all such we offer the testimony of an English writer:—"Minnesota affords the finest and most inviting field for emigration in the world."

Formerly the richest countries were those in which the products of nature were the most abundant, but now the richest countries are those in which man is the most active. In Minnesota we

may justly claim that both essentials are found in full measure. Our bountiful soil ensures the first, and our bracing atmosphere the second. Moreover, thanks to the beneficent wisdom of that generous legislation which finds no parallel in the history of human enactments, every man is here given a farm upon the simple condition, as before stated, of laboring five years *in his own service*.

The world's plaudits have too long been for men and nations whose power was evinced in devastation. The law of might partitioned the spoil among the conquerors, but I again repeat that it is the glory of America that she acquires territory by purchase, and distributes it among the landless of all nations. In Minnesota is found the fairest domain upon which the blessings of this new dispensation receive practical exemplification. A cordial welcome is extended to all to come and partake of the national bounty, and when, with all the advantages with which lavish nature has endowed our State, it is considered that

here also may be possessed the perfect health requisite for their highest enjoyment, it is not too much to claim that Minnesota presents unequalled inducements to those in search of new homes.

To the immigrant from monarchic governments, the benefits of a republic offer many inducements. Its protection is extended alike to all classes of citizens, its rights, immunities and privileges enjoyed by all. There are in the Eastern States a class of small capitalists, chiefly widows and unmarried ladies, living upon the income of a small legacy, or of the earnings of former years, who manage to subsist comfortably when prices are low, but who, in the present times, must find it difficult to make their means meet their expenses. Such will find the actual cost of living in Minnesota about one-third less than in the Eastern States, whilst the more simple habits of a new country and less expensive modes of dress and equipage, will enable them to maintain a corresponding social position at a still further reduction.

## AGRARIAN DISCONTENTS

THE UNITED STATES was going through its growing pains in the years after the Civil War. There was great industrial expansion and an enormous amount of railroad building. More and more, prairies and plains were being opened up to staple crops and American wheat and meat products were pouring into the European markets. Still, Americans—both government officials and businessmen—were really unfamiliar with proper economic and fiscal policies. There had been a sharp inflation at the end of the war and in the immediate postwar years (as David Wells had shown); and then an equally sharp deflation. There had been a good deal of unwise and speculative railroad building. There had not been enough attention paid to the raising of the workers' living standards or to the requirements of an unfavorable balance of payments.

During the earlier flush times, American farmers had expanded their holdings and incurred debts. As prices dropped, they were being confronted by heavy fixed charges and by the exactions of railroad monopolists. The inadequacies of the banking facilities of the

country—notably as they applied to agricultural credits—prompted American farmers to turn their attention to schemes for currency and banking reform: a perennial theme in growing America. An inequitable railroad-rate structure forced them to consider programs for bringing railroads (and warehouses, too) under public control.

These movements for government intervention on the part of Middle Western farmers earned, in turn, the vitriolic condemnation of E. L. Godkin (1831-1902), the English-born editor of the New York weekly *The Nation*. Godkin had no especial fondness for the railroads—he remarked that the Central Pacific spent "twelve months in every year in swindling the Government or devising means to do so"—but he considered government interference in the economic life the worst of all political evils. During the sixties and seventies, his editorial columns were filled with lectures—addressed to the farmers—on banking and currency heresies. One of these editorials is here reprinted from *The Nation* of July 29, 1875.

When the Midwestern states, under the

stimulus of a farmer organization named the Patrons of Husbandry but called The Grange and pushed into action by independent farmer parties, began to pass so-called Granger laws having to do with railroad and warehouse regulation, Godkin was equally caustic. His editorial of January 28, 1875, here reprinted, takes the agrarians to task: they have only succeeded in injuring the credit of the United States.

By this time, these laws of Illinois, Wisconsin, and others were before the Supreme Court, and in *Munn v. Illinois* (94 U.S. 113) the majority opinion of the Court upheld the constitutionality of the Granger laws. The decision was handed down in 1876, with Chief Justice Waite writing the majority opinion and Justice Field a dissenting one.

The Court upheld the right of the community to make conditions for the use of property within its bounds. The Fourteenth Amendment, the majority opinion declared, did not make legislation regulating the use of property a deprivation of property under the "due process" clause. Justice Field's dissent, on the other hand, declared that a business activity was affected with a public interest only when it had been given some special privilege by law. Otherwise, the rights of property, under the "due process" clause were in the same rank as those of the individual citizen. In another ten years, however, the Supreme Court was to accept Field's views and extend the term "person" in the Fourteenth Amendment to include corporations.

### *Editorials from The Nation*

BY E. L. GODKIN

#### I. THE DEMOCRATIC INFLATIONISTS

The canvass now pending in Ohio is perhaps the most interesting one which has occurred since the war, not only because the currency and the public debt form the main issues in it, but because the position of the Democrats has been taken up after the currency question has been very fully discussed, and after the absurdity of the inflationist theory of our financial troubles has been demonstrated by actual experience. We now *know*, as most of us did not know before 1873, that abundance of money and low rates of interest are not all that is needed to revive trade and industry. While the Western and Southern philosophers were clamoring, two years ago, for a redistribution of the national-bank circulation, on the ground that it was monopolized by the East, and that their region did not receive its full share of it, it was easy enough for those who knew anything about the laws of currency to tell them that it did not make any difference how Congress distributed the currency, that it would only stay where it was needed—that is, where there was most buying and selling to be done. But they would not believe it any more than a Sioux would believe an astronomer if he told him he could measure the distance to the moon. They have now had actual proof of it in the fact that the

West and South have not applied for their share of the currency, having in fact no use for it. If a Western banker were supplied with ever so much currency to-day, he would carry it to New York to lend, and in New York he can get so little interest for it as not to make lending worth the trouble. And yet, in the face of all this experience, the Western Democrats continue their clamor for plenty of irredeemable paper-money, and Messrs. Allen and Pendleton go about in Ohio making speeches in favor of it which, to many people at the East, sound like the ravings of drunkenness.

Now, why is it that the experience and discussion of the last three years have not produced enough effect to prevent such an agitation as we see going on in Ohio? How is it that the Democrats, after having been originally "hard-money men," have now so great a fondness for irredeemable paper-money, and do not pay the least attention to your citations either of American or foreign experience of paper-money? Why is there no use in arguing with either of these gentlemen? Why does any attempt to argue with them end in simply bandying contradictions? The fact is that the Democratic party, though it has the reputation of having been a "hard-money" party, was always almost as much in favor of Government money as of "hard-money." It disliked paper-money in the earlier years of its existence rather

because the banks issued it than because it was paper. Jefferson thundered against the "scrip" of the United States Bank, but he was not opposed to the issue of Government scrip. In fact, the present system of Government issues may be found set out with the utmost distinctness in his correspondence, particularly in the year 1813. Nearly all his denunciations of the banks and their "rag-money" are interspersed with suggestions for an issue of Government paper, "based on" a "specific tax." He proposed the payment of the expenses of the war with England by such an issue, or, in other words, proposed the very scheme which Mr. Chase produced forty-seven years later—barring the legal-tender clause—for paying the expenses of putting down the rebellion. Writing to Mr. Eppes, June 4, 1813, Jefferson shows how the thing is to be done. "Every one knows," he says, "that although not literally, it is nearly true, that every paper dollar emitted banishes a silver one from circulation. A nation, therefore, making its purchases and payments with bills fitted for circulation thrusts an equal amount of coin out of circulation. This is equivalent to borrowing that sum, and yet the lender, receiving payment in a medium as effectual as coin for his purchases and payments, has no claim to interest. And so the nation may continue to issue its bills as far as its wants require and the limits of the circulation will admit. Those limits are understood to extend with us at present to \$200,000,000—a greater sum than would be necessary for any war." One has only to put this idea into the hands of "the debtor class," headed by demagogues like Morton and Logan and Allen and Pendleton, to have the Ohio system of finance very speedily evolved from it. Nor did Jefferson's plan die out of the memory of his disciples. In 1837, in the very midst of the distress arising out of the bursting of the bank bubble, and when all true Democrats were clamorous for "hard-money" and against "rag-money," Mr. Silas Wright, the leading party chief, who hated and denounced bank-paper as much as Jackson himself, introduced in the Senate, and carried against the opposition of the Whigs, who advocated a plain, honest loan, the issue of \$10,000,000 of Treasury notes, as a medium in which Government dues could be paid, in the absence of redeemable bank-notes, and he did this under the recommendation of the President, Mr. Van Buren, in his message. It was perhaps the best thing to be done in the peculiar circumstances of the case, but it showed that Democratic hostility to paper-money was by no means absolute; that it could be easily reconciled to paper issued from the right quarter—in short, to "the people's paper," as dis-

tinguished from the paper of "monopolists" and "speculators."

The idea which is at the bottom of the whole agitation in favor of unlimited issues of greenbacks is as old as the French Revolution, and has come steadily down, in one shape or another, along with the "principle of equality" and the "rights of men." It is now embodied in the political gospel of the Continental Socialists, under the name of "gratuity of credit." The Continental Socialists have, however, pushed the doctrine further than their American imitators, and made it more efficient, because they have not only provided for the issue of irredeemable paper by the Government, but provide the means by which the "poor man" can get hold of it. Anybody who reads the speeches of Allen or Pendleton or Kelley on the wonderful effects of plenty of paper-money in "quicken[ing] the wheels of industry," will observe that they never describe the mode in which the paper is to reach the wheels. They tell you of the blessing it would prove to the farmer and mechanic, but they refrain from mentioning how the farmer or mechanic is to get it into his possession. They do not propose that the Government should give it away. Even the illustrious Kelley denies his benignant currency to all who cannot provide themselves with 3.65 bonds. But how is the hardy farmer or the industrious mechanic, who is short of money, to procure bonds, in order to exchange them for currency when business is active, and draw them out again when business is dull, etc., etc.? This lamentable gap in the system the French and Germans have filled up by declaring that when the Government makes its issues of paper, it shall lend them to all well-behaved citizens, through banks established for the purpose all over the country; and not on security either—for the present bankers lend on security, and what is lending on security but monopoly? The object of Government issues is, and clearly ought to be, the supply of money to persons who have no security to offer—or, in other words, to the class which needs money most—and this the European plan attains. Some such idea, though in a very vague shape, undoubtedly lies at the bottom of the Kelley and Allen discourses. The training they have unconsciously received in an acute business community doubtless prevents them from proposing openly that "the people's money" should be lent gratis to all comers, because this would make Americans laugh; but the notion that the Government ought in some manner to see that everybody has as much money as he needs in his business is, nevertheless, running through their



minds, and furnishes, or would furnish, the premise the suppression of which makes much of their talk seem so irrational. Kelley has made a lame attempt to meet the difficulty with his 3.65 plan, and Wendell Phillips with his plan of lending on mortgage on real estate at four per cent., but neither of them makes any provision, as we have already remarked, for the poor fellows who have neither bonds nor real estate.

Another thing to be taken into account in trying to explain the steady growth of the inflationist element in the Democratic party is, that it has always been an *a priori* party: its doctrines have never, either in their conception or in their application, been influenced much by either home or foreign experience. That the inflationist element has been steadily gaining ground in its ranks for some years, there is now no denying. It has been kept down on the Eastern seaboard by the predominance of the commercial interest; but in the West it comes nearer every month to taking entire possession of the party, and laughs at the way in which the Eastern organs fling financial history at its head. The way in which the Cincinnati *Times*, for instance, approaches the question, is far more orthodox than the way in which the *World* approaches it. The Western journalist does what the poets do, and what Democratic publicists have always done, in dealing with important political problems—"he looks into his own heart and writes"; while the *World* quotes the report of the Bullion Committee and the history of the French assignats and other musty records of past ages. In this way the Democrats changed the constitution of this and other States, by making all the officers directly responsible to the people, giving us the elective judges. There is nothing in the annals of the human race, or in any man's experience of human nature, to justify faith in such changes any more than to justify faith in irredeemable greenbacks; but then the Democratic politician did not care for annals, and the human nature he studied he learnt about through Jefferson from that profound observer, Jean Jacques Rousseau. It was Rousseau who first revealed to the world the extraordinary things man was capable of if released from the bonds of usage and tradition, and his pictures made an impression which may be found stamped deeply in the reports of many an American convention. The latest traces of them are undoubtedly to be seen in this Democratic clamor for paper-money. What Mr. Allen and his followers are telling us, or trying to tell us, is that we have been misled by oligarchical traditions into the belief that coin was the only good money, and that a community which had

lost it ought to try to recover it; but that we deceive ourselves; that by deep thinking we should discover that paper-money was the true foundation of natural happiness, just as Karl Marx would tell us that long familiarity with the practice of giving security for loans, and of paying them back at a fixed date, had blinded us to the national advantages of loans without security, not payable at any date; and that in this system of banking reflection would show a right-minded man that the world would find a key to the terrible problem of poverty. If you cite experience to these philosophers, they tell you that experience is of no value, because their system was not tried under the proper conditions. It has to be put into operation in a Democratic atmosphere and amid Democratic institutions, and then it will work. If it does not work, it is either because you do not go far enough, or because some malignant person behaves badly. Their paper would be good money if selfish men did not refuse it or undervalue it, just as their constitutions would be good constitutions if every man did his duty. You cannot corner them in discussion. No *a priori* politician or financier was ever cornered, because he always takes to himself wings, as people do in dreams, and perches on some distant and sunny height while you are preparing your cords to bind him.

## 2. THE FARMERS AND THE SUPREME COURT

Within the last few weeks the newspapers have been full of despatches and predictions from Wisconsin to the effect that the present session of the legislature of that State will repeal or substantially modify the Potter Railroad Law. We have ourselves very good reason to believe that these anticipations are well grounded, inasmuch as we understand that a loan needed in Wisconsin for public improvements has been refused by English capitalists solely because of the existence of the Potter Law, and that the only hope of effecting it now lies in an alteration of the law. It seems to be generally believed, too, that if this particular measure is struck off the rolls the trouble will be over, that the capitalists will be satisfied and happy, and money will flow freely as of old from the plethoric coffers of London, Boston, and New York into the Northwest. So far as the repeal or modification of the Potter Law goes, every one must be rejoiced to hear of this proof of returning wisdom, and our readers will bear us witness that we have never expressed a belief in the permanence of this notorious piece of legislation. But we expect and demand a great deal more than this, and every one, either in Europe or America, who is interested in the stock or bonds



of any Western railroad, will recognize the justice of the demand. What is needed now, in the interest of every one who either has property or the hope of acquiring property, is an authoritative exposition by the highest and final tribunal of the country of the rights of people who invest their earnings in the securities of railroads, on the faith of charters granted them by States or the United States. The withdrawal of the suits now pending in the Supreme Court at Washington, in consideration of the repeal or modification of the Potter Law, would really leave the matter exactly where it now is—would give the bond and share holders no more guarantees than they have now, would abridge no right now alleged to exist on the part of the State, and would leave the whole matter to be reopened as soon as the next era of railroad speculation and extravagant town-bonding should give the farmers reason to believe that they were not making money fast enough.

Let no one suppose for a moment that this is a forced statement of the motives which have guided the Grangers in their assault upon railroad property. They maintain, indeed, that they have a legal theory of the relation of corporations and the state at the bottom of their demands, but this is a sheer fabrication. Their theory now is that railroads are public highways, and therefore the tolls taken on them must be such as the public deems reasonable. It is not more than half-a-dozen years, however, since throughout the West there was a great farmers' movement directed to the sole end of getting the courts to declare the direct opposite of this—that a railroad was a purely private enterprise, and had no public character whatever. The explanation of this inconsistency is simple enough. It is that in the first instant the farmers wanted the courts to declare that bonds, issued by themselves in their corporate capacity of towns and counties in aid of railroads, were illegal, and on that account they need not pay the interest. To do this it was necessary that the roads should be decided to be private companies, in aid of which of course public taxation or loans were unlawful. Now, however, what the Grangers want is to make the roads carry grain at such prices as will make farming remunerative when it does not pay to farm, and therefore they have gone into court to procure decisions to the effect that railroads are public highways. This is not a mere technical inconsistency which it is for lawyers to explain and dissipate; it is in reality a glaring and insolent assertion on the part of the Grangers that they do not care what the law is, or what justice is, but that they propose to frame, whenever they either wish to stop payments of their own debts to rail-

roads, or wring some money out of the railroads, some legal theory to fit the occasion.

We maintain, as we have maintained all along, that the principle of the Potter Law (which is, of course, in no way abrogated by change or repeal of particular measures devised to give expression to it) is either confiscation, or, if another phrase be more agreeable, the change of railroads from pieces of private property, owned and managed for the benefit of those who have invested their money in them, into eleemosynary or charitable corporations, managed not for the profit of the owners, but for the benefit of a particular class of applicants for outdoor relief—the farmers; and, more than this, such farmers only as happen to live along the line. There is no reason, either, why this new principle should be applied only to railroads. If true of them, it is equally true of all corporations incorporated by private capital for ends of anything like a public character—such as newspapers, hotels, telegraph companies, and all factories for the manufacture of necessary articles, particularly those dedicated by law to public uses by protection against foreign competition. That this is the principle which the Grangers wish to have embedded in the structure of the law of the country, we deduce from several considerations: first, from the inevitable nature of the legal arguments used; second, from the inevitable analogy between the property attacked and those other kinds we have just enumerated; third, from the temper and general tone of the arguments by which the Grangers support their claim; and, fourth, by the only example of what they demand and are satisfied with in the way of judicial support—the opinion of the Supreme Court of Wisconsin on the constitutionality of the Potter Law—an opinion vastly more important and dangerous than the law itself, since the law might be considered the effect of a mere gust of passion, while the opinion was put forth as a calm and dispassionate statement of legal duties and liabilities.

With regard to the use of the word "confiscation," which many people seem to think so unnecessarily harsh and unjust, we must say that the common notion that people who make an attack on other people's property begin their movement by crying "Go to, let us rob, and plunder, and destroy," is incorrect. Almost all schemes of spoliation in modern times make a pretence to morality of some kind, as we may see now in the South, where property is taxed into the pockets of men like Casey, Kellogg, and Moses in order that "the negro may be protected," or in the Paris Commune, where a great deal of the most valuable property was destroyed, and all private own-

ers threatened with confiscation, and general anarchy introduced, in order to bring in an era of liberty, fraternity, and equality. So, too, the repudiation of the five-twenty bonds is demanded by large bodies of people on the ground that speculators have made too much money out of their issue, or because justice requires that we should abide by the "letter of the law." Therefore, in saying that the decision of the Wisconsin Supreme Court is a decision in favor of confiscation, we do not mean that Chief-Justice Ryan and his associates are in the habit, when not holding court, of robbing on the highway, or even mean to encourage robbery, but to call the attention of investors and property-owners to the fact that the highest court of that State has solemnly decided, on the demand of the State Attorney-General, that the right to confiscate for the benefit of a class is part of the fundamental law of the country. A railroad charter, they say, is certainly a contract, but the State of Wisconsin has reserved the right to alter it at pleasure, and of the expediency and justice of the alteration they are sole judges. Railroads may, it is true, issue bonds guaranteed by all their property and vested rights, but the purchasers of these bonds take them at their peril, and subject to the right of the legislature to deprive them of all their value. To say that the legislature would be incapable of such folly is no answer; because, if we may judge by experience, there is no folly of which legislatures are incapable.

In saying that such legislation as the Potter Law converts a private company into a charitable society for the benefit of a particular class, we are really understating the case. A charity is as a general thing supported by funds raised by taxation, and thus contributed by the whole community, or it is supported by private funds voluntarily given by the founder or the associates. But railroads, if their earnings are to be determined by the legislature, are made into involuntary charities. They become charities which are supported by forced contributions levied upon the owners of the stock and bonds. A railroad becomes a sort of God's highway, on which everybody has a natural as well as constitutional right to travel and to transport goods, at the expense of the kind-hearted people who built it. This is charity with a vengeance. It is, indeed, exactly the way in which an invading army uses railroads in time of war.

Such being the legal foundation on which the movement rests, what is the temper in which it is advocated? Is their demand a calm and manly appeal to the public for the redress of proved griev-

ances, or is it a petulant, noisy, and confused clamor for no one knows exactly what? We have before us a number of the *Journal of Social Science*, published six months ago, containing what purports to be a temperate statement of the farmer's grievances by Mr. Willard C. Flagg, president of the Illinois State Farmers' Association. We have looked through it in vain for any discussion of the cost of transportation—a question which of course is the hinge on which any reform must turn; but what we do find, on the first page, is a sort of historical parallel between the post-medieval peasantry of France and the agricultural capitalists of the grain-producing States of the Northwest:

"One sees," says Mr. Flagg, quoting La Bruyère, "certain wild animals, both male and female, scattered about the country, livid, and roasted by the sun, bent over the soil, which they scratch and dig up with invincible persistence; and when they stand upright they display a human face, for in truth they are men and women. At night they retire to their dens, where they feed on black bread, water, and roots. They spare other people the trouble of digging and sowing and reaping; they deserve not to be deprived of the bread they have produced." "So," continues Mr. Flagg, "allowing for differences in civilization, it has been in all ages. The robber baron, the medieval merchant, the despotic tax-gatherer, reappear in merchant princes, 'protected' manufacturers, 'national' bankers, and railway 'magnates.'"

And this is what is considered a temperate and scientific way of approaching the subject. Turning to the proceedings of the Illinois State Farmers' Association itself, held six months before this (a report which persons are reminded in the introductory remarks is an "educational document"), we find in turning over the first few pages, among other educational material, a resolution introduced for the reconstruction of the courts on "principles of common sense"—the only principle mentioned being that people ought to argue their own cases as far as possible without aid from lawyers or any resort to appeals; second, a resolution to the effect that property "should bring a reasonable per cent. of profit," and that "the owner has the right to fix such reasonable per cent."; third, a resolution that the existing doctrine of "vested rights" of railroads "belongs to a past age," and "has no legitimate place in the jurisprudence of a free people"; besides any number of denunciations of specie payments, and among these a long paper by Mr. H. H. Day, of New York, in the

course of which he refers to Mr. John Sherman, chairman of the Senate Finance Committee, as one of a gang of "banditti," and declares that "the first act signed by Ulysses S. Grant swept a thousand millions into the pocket of the specie-basis usurers, and added just so much to the shoulders of the toiling people, and laid the foundation for national decay." In short, we find in these temperate sociological and educational tracts the same sort of violent and irrational language with which the public is more familiar in such reports as that of Mr. Osborn, the Wisconsin Commissioner, who talks of the owners and managers of railroad securities as "these buccaneers of the nineteenth century."

We feel it to be our duty to warn all investors that they will be very foolish to trust any of their money to legislatures which pass such laws as the Potter Act, to judges who decide such laws constitutional, or to communities which produce such contributions to social science and popular education as those from which we have quoted, without the guarantee which an authoritative decision of the United States Supreme Court alone can give.

We want to know, and to know finally when we buy one, what a railroad bond or share of stock actually is. Is it, as we are accustomed to consider, property, just as much as houses and furniture, or is it, as Chief-Justice Ryan assures us, a contract between two persons having a value to be determined at the pleasure of a third, to be increased or enhanced as the changing majority of an agricultural legislature happens to view with favor or dislike the railroad system of the country? It is one of the marks of a civilized, as distinguished from a barbarous state of society, that in the former what we call property is protected equally, whether it consists of lands and houses, or of mere evidences of value—paper credits, or bonded debt. If in the era of progress to which the farmers' movement proposes to introduce us, we are going back to a condition of society in which the only sort of property which we can call our own is that which we can make our own by physical possession, it is certainly important to every one to know it, and the only body which can really tell us is the Supreme Court at Washington.

### *Munn v. Illinois*

#### OPINION OF THE SUPREME COURT

MR. CHIEF JUSTICE WAITE delivered the opinion of the court.

The question to be determined in this case is whether the general assembly of Illinois can, under the limitations upon the legislative power of the States imposed by the Constitution of the United States, fix by law the maximum of charges for the storage of grain in warehouses at Chicago and other places in the State having not less than one hundred thousand inhabitants, "in which grain is stored in bulk, and in which the grain of different owners is mixed together, or in which grain is stored in such a manner that the identity of different lots or parcels cannot be accurately preserved."

It is claimed that such a law is repugnant—

1. To that part of sect. 8, art. 1, of the Constitution of the United States which confers upon Congress the power "to regulate commerce with foreign nations and among the several States;"

2. To that part of sect. 9 of the same article which provides that "no preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another;" and

3. To that part of amendment 14 which ordains that no State shall "deprive any person of life, liberty, or property, without due process of law,

nor deny to any person within its jurisdiction the equal protection of the laws."

We will consider the last of these objections first.

Every statute is presumed to be constitutional. The courts ought not to declare one to be unconstitutional, unless it is clearly so. If there is doubt, the expressed will of the legislature should be sustained.

The Constitution contains no definition of the word "deprive," as used in the Fourteenth Amendment. To determine its signification, therefore, it is necessary to ascertain the effect which usage has given it, when employed in the same or a like connection.

While this provision of the amendment is new in the Constitution of the United States, as a limitation upon the powers of the States, it is old as a principle of civilized government. It is found in Magna Charta, and, in substance if not in form, in nearly or quite all the constitutions that have been from time to time adopted by the several States of the Union. By the Fifth Amendment, it was introduced into the Constitution of the United States as a limitation upon the powers of the national government, and by the Fourteenth, as a guaranty against any encroachment upon an ac-

knowledgeed right of citizenship by the legislatures of the States.

When the people of the United Colonies separated from Great Britain, they changed the form, but not the substance, of their government. They retained for the purposes of government all the powers of the British Parliament, and through their State constitutions, or other forms of social compact, undertook to give practical effect to such as they deemed necessary for the common good and the security of life and property. All the powers which they retained they committed to their respective States, unless in express terms or by implication reserved to themselves. Subsequently, when it was found necessary to establish a national government for national purposes, a part of the powers of the States and of the people of the States was granted to the United States and the people of the United States. This grant operated as a further limitation upon the powers of the States, so that now the governments of the States possess all the powers of the Parliament of England, except such as have been delegated to the United States or reserved by the people. The reservations by the people are shown in the prohibitions of the constitutions.

When one becomes a member of society, he necessarily parts with some rights or privileges which, as an individual not affected by his relations to others, he might retain. "A body politic," as aptly defined in the preamble of the Constitution of Massachusetts, "is a social compact by which the whole people covenants with each citizen, and each citizen with the whole people, that all shall be governed by certain laws for the common good." This does not confer power upon the whole people to control rights which are purely and exclusively private, *Thorpe v. R. & B. Railroad Co.*, 27 Vt. 143; but it does authorize the establishment of laws requiring each citizen to so conduct himself, and so use his own property, as not unnecessarily to injure another. This is the very essence of government and has found expression in the maxim *sic utere tuo ut alienum non ledas*. From this source come the police powers, which, as was said by Mr. Chief Justice Taney in the *License Cases*, 5 How. 583, "are nothing more or less than the powers of government inherent in every sovereignty, . . . that is to say, . . . the power to govern men and things." Under these powers the government regulates the conduct of its citizens one towards another, and the manner in which each shall use his own property, when such regulation becomes necessary for the public good. In their exercise it has been customary in England from time immemorial, and in

this country from its first colonization, to regulate ferries, common carriers, hackmen, bakers, millers, wharfingers, innkeepers, &c., and in so doing to fix a maximum of charge to be made for services rendered, accommodations furnished, and articles sold. To this day, statutes are to be found in many of the States upon some or all these subjects; and we think it has never yet been successfully contended that such legislation came within any of the constitutional prohibitions against interference with private property. With the Fifth Amendment in force, Congress, in 1820, conferred power upon the city of Washington "to regulate . . . the rates of wharfage at private wharves, . . . the sweeping of chimneys, and to fix the rates of fees therefor, . . . and the weight and quality of bread," 3 Stat. 587, sect. 7; and, in 1848, "to make all necessary regulations respecting hackney carriages and the rates of fare of the same, and the rates of hauling by cartmen, wagoners, carmen, and draymen, and the rates of commission of auctioneers," 9 id. 224, sect. 2.

From this it is apparent that, down to the time of the adoption of the Fourteenth Amendment, it was not supposed that statutes regulating the use, or even the price of the use, of private property necessarily deprived an owner of his property without due process of law. Under some circumstances they may, but not under all. The amendment does not change the law in this particular: it simply prevents the States from doing that which will operate as such a deprivation.

This brings us to inquire as to the principles upon which this power of regulation rests, in order that we may determine what is within and what without its operative effect. Looking, then, to the common law, from whence came the right which the Constitution protects, we find that when private property is "affected with a public interest, it ceases to be *juris privati* only." This was said by Lord Chief Justice Hale more than two hundred years ago, in his treatise *De Portibus Maris*, 1 Harg. Law Tracts, 78, and has been accepted without objection as an essential element in the law of property ever since. Property does become clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large. When, therefore, one devotes his property to a use in which the public has an interest, he, in effect, grants to the public an interest in that use, and must submit to be controlled by the public for the common good, to the extent of the interest he has thus created. He may withdraw his grant by discontinuing the use; but, so long as he maintains the use, he must submit to the control. . . .

Common carriers exercise a sort of public office, and have duties to perform in which the public is interested. *New Jersey Nav. Co. v. Merchants' Bank*, 6 How. 382. Their business is, therefore, "affected with a public interest," within the meaning of the doctrine which Lord Hale has so forcibly stated.

But we need not go further. Enough has already been said to show that, when private property is devoted to a public use, it is subject to public regulation. It remains only to ascertain whether the warehouses of these plaintiffs in error, and the business which is carried on there, come within the operation of this principle.

For this purpose we accept as true the statements of fact contained in the elaborate brief of one of the counsel of the plaintiffs in error. . . .

In this connection it must also be borne in mind that, although in 1874 there were in Chicago fourteen warehouses adapted to this particular business, and owned by about thirty persons, nine business firms controlled them, and that the prices charged and received for storage were such "as have been from year to year agreed upon and established by the different elevators or warehouses in the city of Chicago, and which rates have been annually published in one or more newspapers printed in said city, in the month of January in each year, as the established rates for the year then next ensuing such publication." Thus it is apparent that all the elevating facilities through which these vast productions "of seven or eight great States of the West" must pass on the way "to four or five of the States on the seashore" may be a "virtual" monopoly.

Under such circumstances it is difficult to see why, if the common carrier, or the miller, or the ferryman, or the innkeeper, or the wharfinger, or the baker, or the cartman, or the hackney-coachman, pursues a public employment and exercises "a sort of public office," these plaintiffs in error do not. They stand, to use again the language of their counsel, in the very "gateway of commerce," and take toll from all who pass. Their business most certainly "tends to a common charge, and is become a thing of public interest and use." Every bushel of grain for its passage "pays a toll, which is a common charge," and, therefore, according to Lord Hale, every such warehouseman "ought to be under public regulation, viz., that he . . . take but reasonable toll." Certainly, if any business can be clothed "with a public interest, and cease to be *juris privati* only," this has been. It may not be made so by the operation of the Constitution of Illinois or this statute, but it is by the facts. . . .

For our purposes we must assume that, if a state of facts could exist that would justify such legislation, it actually did exist when the statute now under consideration was passed. For us the question is one of power, not of expediency. If no state of circumstances could exist to justify such a statute, then we may declare this one void, because in excess of the legislative power of the State. But if it could, we must presume it did. Of the propriety of legislative interference within the scope of legislative power, the legislature is the exclusive judge.

Neither is it a matter of any moment that no precedent can be found for a statute precisely like this. It is conceded that the business is one of recent origin, that its growth has been rapid, and that it is already of great importance. And it must also be conceded that it is a business in which the whole public has a direct and positive interest. It presents, therefore, a case for the application of a long-known and well-established principle in social science, and this statute simply extends the law so as to meet this new development of commercial progress. There is no attempt to compel these owners to grant the public an interest in their property, but to declare their obligations, if they use it in this particular manner.

It matters not in this case that these plaintiffs in error had built their warehouses and established their business before the regulations complained of were adopted. What they did was from the beginning subject to the power of the body politic to require them to conform to such regulations as might be established by the proper authorities for the common good. They entered upon their business and provided themselves with the means to carry it on subject to this condition. If they did not wish to submit themselves to such interference, they should not have clothed the public with an interest in their concerns. The same principle applies to them that does to the proprietor of a hackney-carriage, and as to him it has never been supposed that he was exempt from regulating statutes or ordinances because he had purchased his horses and carriage and established his business before the statute or the ordinance was adopted.

It is insisted, however, that the owner of property is entitled to a reasonable compensation for its use, even though it be clothed with a public interest, and that what is reasonable is a judicial and not a legislative question.

As has already been shown, the practice has been otherwise. In countries where the common law prevails, it has been customary from time immemorial for the legislature to declare what shall

be a reasonable compensation under such circumstances, or, perhaps more properly speaking, to fix a maximum beyond which any charge made would be unreasonable. Undoubtedly, in mere private contracts, relating to matters in which the public has no interest, what is reasonable must be ascertained judicially. But this is because the legislature has no control over such a contract. So, too, in matters which do affect the public interest, and as to which legislative control may be exercised, if there are no statutory regulations upon the subject, the courts must determine what is reasonable. The controlling fact is the power to regulate at all. If that exists, the right to establish the maximum of charge, as one of the means of regulation, is implied. In fact, the common-law rule, which requires the charge to be reasonable, is itself a regulation as to price. Without it the owner could make his rates at will, and compel the public to yield to his terms, or forego the use. . . .

We know that this is a power which may be abused; but that is no argument against its existence. For protection against abuses by legislatures the people must resort to the polls, not to the courts. . . .

We come now to consider the effect upon this statute of the power of Congress to regulate commerce. . . .

It was very properly said in the case of the *State Tax on Railway Gross Receipts*, 15 Wall. 293, that "it is not every thing that affects commerce that amounts to a regulation of it, within the meaning of the Constitution." The warehouses of these plaintiffs in error are situated and their business carried on exclusively within the limits of the State of Illinois. They are used as instruments by those engaged in State as well as those engaged in inter-state commerce, but they are no more necessarily a part of commerce itself than the dray or the cart by which, but for them, grain would be transferred from one railroad station to another. Incidentally they may become connected with inter-state commerce, but not necessarily so. Their regulation is a thing of domestic concern, and, certainly, until Congress acts in reference to their inter-state relations, the State may exercise all the powers of government over them, even though in so doing it may indirectly operate upon commerce outside its immediate jurisdiction. We do not say that a case may not arise in which it will be found that a State, under the form of regulating its own affairs, has encroached upon the exclusive domain of Congress in respect to inter-state commerce, but we do say that, upon the facts as they are repre-

sented to us in this record, that has not been done. . . .

MR. JUSTICE FIELD AND MR. JUSTICE STRONG DISSENTED

MR. JUSTICE FIELD. I am compelled to dissent from the decision of the court in this case, and from the reasons upon which that decision is founded. The principle upon which the opinion of the majority proceeds is, in my judgment, subversive of the rights of private property, heretofore believed to be protected by constitutional guaranties against legislative interference, and is in conflict with the authorities cited in its support.

The defendants had constructed their warehouse and elevator in 1862 with their own means, upon ground leased by them for that purpose, and from that time until the filing of the information against them had transacted the business of receiving and storing grain for hire. The rates of storage charged by them were annually established by arrangement with the owners of different elevators in Chicago, and were published in the month of January. In 1870 the State of Illinois adopted a new constitution, and by it "all elevators or storehouses where grain or other property is stored for a compensation, whether the property stored be kept separate or not, are declared to be public warehouses."

In April, 1871, the legislature of the State passed an act to regulate these warehouses, thus declared to be public, and the warehousing and inspection of grain, and to give effect to this article of the Constitution. . . .

The question presented, therefore, is one of the greatest importance,—whether it is within the competency of a State to fix the compensation which an individual may receive for the use of his own property in his private business, and for his services in connection with it.

The declaration of the Constitution of 1870, that private buildings used for private purposes shall be deemed public institutions, does not make them so. The receipt and storage of grain in a building erected by private means for that purpose does not constitute the building a public warehouse. There is no magic in the language, though used by a constitutional convention, which can change a private business into a public one, or alter the character of the building in which the business is transacted. A tailor's or a shoemaker's shop would still retain its private character, even though the assembled wisdom of the State should declare, by organic act or legislative ordinance,

that such a place was a public workshop, and that the workmen were public tailors or public shoemakers. One might as well attempt to change the nature of colors, by giving them a new designation. The defendants were no more public warehousemen, as justly observed by counsel, than the merchant who sells his merchandise to the public is a public merchant, or the blacksmith who shoes horses for the public is a public blacksmith; and it was a strange notion that by calling them so they would be brought under legislative control.

The Supreme Court of the State—divided, it is true, by three to two of its members—has held that this legislation was a legitimate exercise of State authority over private business; and the Supreme Court of the United States, two only of its members dissenting, has decided that there is nothing in the Constitution of the United States, or its recent amendments, which impugns its validity. It is, therefore, with diffidence I presume to question the soundness of the decision.

The validity of the legislation was, among other grounds, assailed in the State court as being in conflict with that provision of the State Constitution which declares that no person shall be deprived of life, liberty, or property without due process of law, and with that provision of the Fourteenth Amendment of the Federal Constitution which imposes a similar restriction upon the action of the State. The State court held, in substance, that the constitutional provision was not violated so long as the owner was not deprived of the title and possession of his property; and that it did not deny to the legislature the power to make all needful rules and regulations respecting the use and enjoyment of the property, referring, in support of the position, to instances of its action in prescribing the interest on money, in establishing and regulating public ferries and public mills, and fixing the compensation in the shape of tolls, and in delegating power to municipal bodies to regulate the charges of hackmen and draymen, and the weight and price of bread. In this court the legislation was also assailed on the same ground, our jurisdiction arising upon the clause of the Fourteenth Amendment, ordaining that no State shall deprive any person of life, liberty, or property without due process of law. But it would seem from its opinion that the court holds that property loses something of its private character when employed in such a way as to be generally useful. The doctrine declared is that property "becomes clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large;" and

from such clothing the right of the legislature is deduced to control the use of the property, and to determine the compensation which the owner may receive for it. When Sir Matthew Hale, and the sages of the law in his day, spoke of property as affected by a public interest, and ceasing from that cause to be *juris privati* solely, that is, ceasing to be held merely in private right, they referred to property dedicated by the owner to public uses, or to property the use of which was granted by the government, or in connection with which special privileges were conferred. Unless the property was thus dedicated, or some right bestowed by the government was held with the property, either by specific grant or by prescription of so long a time as to imply a grant originally, the property was not affected by any public interest so as to be taken out of the category of property held in private right. But it is not in any such sense that the terms "clothing property with a public interest" are used in this case. From the nature of the business under consideration—the storage of grain—which, in any sense in which the words can be used, is a private business, in which the public are interested only as they are interested in the storage of other products of the soil, or in articles of manufacture, it is clear that the court intended to declare that, whenever one devotes his property to a business which is useful to the public,—“affects the community at large,”—the legislature can regulate the compensation which the owner may receive for its use, and for his own services in connection with it. “When, therefore,” says the court, “one devotes his property to a use in which the public has an interest, he, in effect, grants to the public an interest in that use, and must submit to be controlled by the public for the common good, to the extent of the interest he has thus created. He may withdraw his grant by discontinuing the use; but, so long as he maintains the use, he must submit to the control.” The building used by the defendants was for the storage of grain: in such storage, says the court, the public has an interest; therefore the defendants, by devoting the building to that storage, have granted the public an interest in that use, and must submit to have their compensation regulated by the legislature.

If this be sound law, if there be no protection, either in the principles upon which our republican government is founded, or in the prohibitions of the Constitution against such invasion of private rights, all property and all business in the State are held at the mercy of a majority of its legislature. The public has no greater interest in the use of buildings for the storage of grain than it has in



the use of buildings for the residences of families, nor, indeed, any thing like so great an interest; and, according to the doctrine announced, the legislature may fix the rent of all tenements used for residences, without reference to the cost of their erection. If the owner does not like the rates prescribed, he may cease renting his houses. He has granted to the public, says the court, an interest in the use of the buildings, and "he may withdraw his grant by discontinuing the use; but, so long as he maintains the use, he must submit to the control." The public is interested in the manufacture of cotton, woollen, and silken fabrics, in the construction of machinery, in the printing and publication of books and periodicals, and in the making of utensils of every variety, useful and ornamental; indeed, there is hardly an enterprise or business engaging the attention and labor of any considerable portion of the community, in which the public has not an interest in the sense in which that term is used by the court in its opinion; and the doctrine which allows the legislature to interfere with and regulate the charges which the owners of property thus employed shall make for its use, that is, the rates at which all these different kinds of business shall be carried on, has never before been asserted, so far as I am aware, by any judicial tribunal in the United States.

The doctrine of the State court, that no one is deprived of his property, within the meaning of the constitutional inhibition, so long as he retains its title and possession, and the doctrine of this court, that, whenever one's property is used in such a manner as to affect the community at large, it becomes by that fact clothed with a public interest, and ceases to be *juris privati* only, appear to me to destroy, for all useful purposes, the efficacy of the constitutional guaranty. All that is beneficial in property arises from its use, and the fruits of that use; and whatever deprives a person of them deprives him of all that is desirable or valuable in the title and possession. If the constitutional guaranty extends no further than to prevent a deprivation of title and possession, and allows a deprivation of use, and the fruits of that use, it does not merit the encomiums it has received. Unless I have misread the history of the provision now incorporated into all our State constitutions, and by the Fifth and Fourteenth Amendments into our Federal Constitution, and have misunderstood the interpretation it has received, it is not thus limited in its scope, and thus impotent for good. It has a much more extended operation than either court, State, or Federal has given to it. The provision, it is to be observed, places property under the same protection as life

and liberty. Except by due process of law, no State can deprive any person of either. The provision has been supposed to secure to every individual the essential conditions for the pursuit of happiness; and for that reason has not been heretofore, and should never be, construed in any narrow or restricted sense.

No State "shall deprive any person of life, liberty, or property without due process of law," says the Fourteenth Amendment to the Constitution. By the term "life," as here used, something more is meant than mere animal existence. The inhibition against its deprivation extends to all those limbs and faculties by which life is enjoyed. The provision equally prohibits the mutilation of the body by the amputation of an arm or leg, or the putting out of an eye, or the destruction of any other organ of the body through which the soul communicates with the outer world. The deprivation not only of life, but of whatever God has given to every one with life, for its growth and enjoyment, is prohibited by the provision in question, if its efficacy be not frittered away by judicial decision.

By the term "liberty," as used in the provision, something more is meant than mere freedom from physical restraint or the bounds of a prison. It means freedom to go where one may choose, and to act in such manner, not inconsistent with the equal rights of others, as his judgment may dictate for the promotion of his happiness; that is, to pursue such callings and avocations as may be most suitable to develop his capacities, and give to them their highest enjoyment.

The same liberal construction which is required for the protection of life and liberty, in all particulars in which life and liberty are of any value, should be applied to the protection of private property. If the legislature of a State, under pretence of providing for the public good, or for any other reason, can determine, against the consent of the owner, the uses to which private property shall be devoted, or the prices which the owner shall receive for its uses, it can deprive him of the property as completely as by a special act for its confiscation or destruction. If, for instance, the owner is prohibited from using his building for the purposes for which it was designed, it is of little consequence that he is permitted to retain the title and possession; or, if he is compelled to take as compensation for its use less than the expenses to which he is subjected by its ownership, he is, for all practical purposes, deprived of the property, as effectually as if the legislature had ordered his forcible dispossession. If it be admitted that the legislature has any con-



trol over the compensation, the extent of that compensation becomes a mere matter of legislative discretion. The amount fixed will operate as a partial destruction of the value of the property, if it fall below the amount which the owner would obtain by contract, and, practically, as a complete

destruction, if it be less than the cost of retaining its possession. There is, indeed, no protection of any value under the constitutional provision, which does not extend to the use and income of the property, as well as to its title and possession. . . .

## LABOR

THE WORKERS of America were organizing, too. After the Civil War, the Knights of Labor made its appearance and Terence V. Powderly (1849-1924) became its Grand Master Workman. A machinist's apprentice at fifteen, Powderly had been so active in the Machinists' and Blacksmiths' Union that he was among the first men to be blacklisted in 1873. A period of tramping and riding the rods had given him firsthand knowledge of the world of the unemployed. When Powderly returned to the Pennsylvania district where he had been reared, he was ready to join the Knights of Labor, a secret society founded at Philadelphia in 1869 to protect its garment-cutter members from employer persecution. The Knights spread into western Pennsylvania and by the end of the seventies had begun to acquire power. Though its greatest development did not come until the next decade, the Knights of Labor retained the platform and objectives of its founders.

Neither a craft union nor a federation of trades, the Knights combined both these elements of labor organization with benevolent purposes and the attractions of secrecy besides. Unlike the craft unions, the Knights made especial effort to win unorganized unskilled laborers; and this gave rise to much of its early strength and also to many of the weaknesses that helped destroy it.

In the seventies, however, the Knights of Labor was in its earlier stage of development; it retained not only the method of secrecy, which it was to drop, but also the spirit of conciliation and cooperation. Unlike the "pure and simple" unionism of the later American Federation of Labor trade unions, the Knights of Labor had a political program and a social hope: the replacing of the wage system by true industrial cooperation.

The selection here reprinted is from Powderly's *Thirty Years of Labor* (Columbus, Ohio, 1889).

### *Thirty Years of Labor*

BY T. V. POWDERLY

#### THE FOUNDING OF THE KNIGHTS OF LABOR

. . . AMONG THOSE who had been carefully scanning the field of operations, and studying the signs of the times, were the garment cutters of Philadelphia, who, as soon as the movement in favor of a reduction of wages made itself visible, called a meeting in the autumn of 1862, and passed resolutions which declared that they were entitled to a fair compensation for labor done, and would accept nothing less. From this meeting grew the organization afterwards known as the "Garment Cutters' Association of Philadelphia." It grew in strength and influence. It had on the roll of membership some of the ablest men who toiled for a living in Philadelphia; and it was particularly

fortunate in selecting for the first corps of officers the best and brightest men in the craft.

The care and attention which had been displayed in the election of the first set of officers became a precedent by which officers were chosen at following elections, and gave to the ASSOCIATION A STANDING among the garment cutters which it would not otherwise have had. This association continued in existence for a number of years.

Having served the purposes for which it was first organized, it became a beneficial association, taking care of the sick and disabled members, and assisting many members of the trade who were not in affiliation with the association. In the early spring of 1869, a lack of interest having manifested

itself among the members, it was deemed advisable by some to introduce new features, and make some changes which innovations in work-shop regulation seemed to demand.

One Sunday afternoon two members of the association, Uriah S. Stephens and Henry L. Sinexon, met by appointment, and took a walk in the direction of League Island. While sauntering along, Mr. Stephens complained bitterly of the lack of interest manifested by the members of the Garment Cutters' Association. . . .

Mr. Sinexon asked his companion if he had given any thought to the formulation of any plans; the reply was: "No, but I am determined to make an effort to institute something different. When the dissolution takes place I shall make an effort to get some good men together and originate something that will be different from what we have ever had. . . ."

In this way these two men discussed various measures of reform for several hours, and finally parted with the understanding that each was to invite a chosen few to meet at a certain spot in Fairmount Park on the following Sunday. The meeting in the park was attended by eight or nine of the older and more reliable of the Garment Cutters' Association. They agreed to draw up plans for the organization of a new order, and to submit them at a subsequent meeting. On several Sundays these meetings were held in the park. The men who met would take three of the park benches and place them in the form of a triangle. They would then sit on the inside of the triangle, and each one would read off the plans he had drawn up during the week. Mr. Stephens usually occupied the post of honor in the center, and at the close of each meeting all papers would be placed in his possession for consideration. Should it happen to rain while they were in session, they would seek the shelter of one of the park buildings, and there continue to perfect their plans. They continued to meet in this way for months. When the weather grew too cold for them to meet in the park they held their sessions in the homes of the members until their plans were well matured.

On December 9, 1869, a resolution was offered at a meeting of the Garment Cutters' Association: "To dissolve and divide the funds among the members in good standing." The motion met with but little opposition, and its passage was PRACTICALLY UNANIMOUS.

Immediately after the dissolution of the Garment Cutters' Association, several members from among those who had made a study for several months of the best means of inaugurating a new

movement among the garment cutters, met in the hall of the American Hose Company, on Jayne street, below Seventh, and proceeded to organize by electing Jas. L. Wright as temporary chairman, and Robert McCauley as temporary secretary. After a free and deliberate discussion of the subject of organization, the question was put to each person present: "Have you any objections to connect yourself with a secret organization?" The following answered in the negative by stating that they had no objections to offer: James L. Wright, Wm. H. Phillips, U. S. Stephens, Robert McCauley, William Cook, James M. Hilsea, Joseph S. Kennedy, Robert W. Keen, and David Westcott.

Mr. Keen was then placed in charge of the door, a pledge of SECRECY WAS ADMINISTERED to all present, and a password was given out to be used on subsequent occasions. Various plans were considered, and the measures which had been under discussion for months by the few who had busied themselves with the work of bringing the new order into being, were referred to a committee consisting of U. S. Stephens, R. W. Keen, David Westcott, Joseph S. Kennedy, James M. Hilsea, James L. Wright, and Robert McCauley, with instructions to meet and prepare, from the documents placed in their possession, a secret work, such as would be suitable for the government of such a body. It was agreed at this meeting that no further mention would be made to any one who was not present, except those who had taken part in the preliminary discussions, which had taken place in the park and at other places. . . .

The third meeting was held at the house of Jos. S. Kennedy, on December 28, 1869. At this meeting the name of the new association was made a subject for discussion, and it was decided to call it THE KNIGHTS OF LABOR, and the local name of the body was to be Garment Cutters' Assembly. It was reported that a room could be secured in the United States Engine House, at Fourth and Vine Streets, and Messrs. Keen and McCauley were appointed to engage the room. The committee made a partial report, and recommended a form of obligation to which U. S. Stephens, R. W. Keen, James L. Wright, James M. Hilsea, Joseph S. Kennedy, William Cook, and Robert McCauley subscribed.

This meeting began the permanent organization of the first Assembly of the Knights of Labor. At the next meeting, which was held in the room which had been secured in the United States Engine House, on December 30, 1869, the committee on ritual reported progress, and G. W. Cook, H. L. Sinexon, W. C. Yost, Samuel Wright, G. W.

Hornberger, and James Barron, were elected to membership.

On January 6, 1870, the first regular officers were elected after the committee on ritual recommended what titles the officers should be known by. It was decided to call the retiring presiding officer Venerable Sage, the presiding officer Master Workman. The next officer in rank to be known as Worthy Foreman. The other officers were to be known as Worthy Inspector, Unknown Knight, Recording Secretary, Financial Secretary, and Treasurer. James L. Wright, who had occupied the position of presiding officer, was appointed Venerable Sage, and Uriah S. Stephens was elected the first Master Workman for the year beginning January, 1870. . . .

On October 20th the first person not a garment cutter was proposed as a sojourner in Assembly No. 1. In order to SPREAD THE BENEFITS of organization among workingmen, it was allowed to initiate good men of all callings, and to allow them the benefits of association on the same footing with the garment cutters, except in deciding trade matters. Sojourners were not required to pay any dues until such time as enough of their own calling had been initiated to form a separate assembly. The sojourner was admitted that he might become a missionary among his fellow-tradesmen; he was to be an instructor and an organizer.

This departure from the original plan of the assembly was the first real step in advance of the old system of organization that was made, and from the 20th of October, 1870, dates this history of the order of the Knights of Labor as something in advance of, and differing from, the exclusive trade union. From its inception Assembly No. 1 was more exclusively a trade organization than any trade union that had ever existed in the United States. None but garment cutters, who could prove that they had served a stated term as apprentices, were admitted. The principles of co-operation and assistance were to be confined to a few who could pass examination as first-class workmen. The REAL WORK OF KNIGHTHOOD had not yet started, and the founders of the first assembly, with the exception of Uriah S. Stephens, William Fennimore, and Henry L. Sinexon, were as much interested in trade matters as any person who belonged to a trade union. Compared with the trade unions of that day the first assembly of the Knights of Labor was far behind them in toleration and fellowship.

The idea which Stephens and Sinexon discussed at the outset was not put in practice until the adoption of the motion, made by the latter, threw

open the doors for the admission of other workmen than garment cutters. From that moment began the progressive work of the Knights of Labor.

The ideal organization for which the workers in the National Labor Union and the Industrial Brotherhood had sought in vain, loomed up before the eyes of those who were members of the new order in 1870. From that moment organization took on a new significance, and assumed more DIGNIFIED AND IMPORTANT proportions. Trade lines were no longer powerful enough or sufficient to encompass the toilers who sought protection, as much from their own errors through their ignorance of the rights and duties of each other, as from the encroachments of unscrupulous employers. The secrecy which enshrouded the new order made it difficult to organize, and it was a process slow of operation to propose, elect, and initiate a candidate. . . .

When a member found a man who was considered worthy of admission, he was questioned as to his opinions concerning the elevation of labor, and if his sentiments were found to be in accord with the objects of the society, his name would be brought before a meeting of the organization, the local name of which was "Garment Cutters' Assembly No. 1." A committee would be appointed to make an investigation into the qualifications of the person proposed. The member who proposed the candidate was not allowed to act on the committee, for the reason that he might be swayed or INFLUENCED BY FRIENDSHIP in making his report. When the committee reported, the candidate was balloted for; if rejected, no further mention was made of the matter to any one. The candidate would be kept in ignorance of what had transpired; and the members, even those who had voted against his admission, would treat him with the same consideration in the workshop as before.

If the candidate was elected the friend who proposed him would on some pretext invite him to a meeting, a party, a ball, or a gathering of some kind, and manage to secure his presence at the regular meeting-place of the assembly on the night of initiation, and when the candidate for the first time learned that he was to enter a society as a new member, he was at the same time led to believe that his friend had also been invited there for the same purpose; so that in case of failure to initiate, the elected one would not even then know that his friend was connected with the society.

This method of securing members was kept up for several years, and became the rule with

all future assemblies. The reason for this EXTREME SECRECY was because it was claimed that open and public associations had, after centuries of toil and struggle, proved to be failures in one way or another. It was also claimed that when the association worked openly, so that its members might be known to the public, it exposed its members to the scrutiny, and in time, the wrath, of their employers. It was deemed best to work in such a way to avoid comment and scrutiny.

The troubles which were at that time attracting attention toward the coal fields from which Philadelphia received its principal supply of fuel, also influenced the members of the new order. Through open and public association the men of the coal fields allowed desperate men to gain admittance to their societies; and among the latter was the detective, who, in order to earn his salary, added to his treachery the crime of perjury and murder in order to make out a case against his fellow-men.

Where associations of workingmen are working openly it matters but little what laudable object they may have in view, men can always be had for a price who will deliberately enter a society as though actuated by the best of motives, and after ingratiating themselves in the good graces of the members, become leaders only to lead to ruin and death. Such things have been done in Pennsylvania, and it was to avoid the repetition of such a catastrophe that the first assembly of the Knights of Labor assumed the garb of secrecy which it wore until, with the rest of the order, it cast the outer covering aside, and announced to the world that there was such an organization as the Knights of Labor working for the EMANCIPATION OF THE WAGE-EARNER. . . .

It was not the intention to create an antagonism between labor and capital. No conflict with legitimate enterprise was contemplated, but the members realized that men who possessed wealth, in their haste and greed, blinded by self interest, often overlooked the interests of others less fortunate than they, and frequently violated the rights of such as they deemed helpless and defenceless.

Stephens and his co-laborers meant to uphold the dignity of labor, and to affirm the nobility of all who earned their daily bread in an honest way, but they swore unending enmity to every form of vice by which the poor were being fleeced for the benefit of the gamblers in the necessities of life. It was their intention to work for the creation of a healthy public opinion on the subject of labor,—the only creator of values,—and to advocate the justice of its receiving a full, complete

share of the values, or capital, it created. It was furthermore intended to support all laws that were made to HARMONIZE LABOR AND CAPITAL; for since labor gave life and value to capital, it was but just to place both upon an equality before the law. Laws which were intended to lighten the exhaustiveness of toil were to be supported and advocated, and new laws were to be advised in the interest of the worker. Every lawful and honorable means was to be resorted to to procure and retain employment for fellow-members, and it mattered not to what country, color, or creed the member belonged, if misfortune befell him, he was to receive the aid and comfort of his fellow-members. Strikes were discountenanced, but when it became justly necessary to make use of that weapon, it was intended to aid such members as might suffer loss. In short, it was the intention to extend a helping hand to every branch of trade which made a part of the vast industrial forces of the country. . . .

The fundamental principle on which the organization was based was co-operation, not a co-operation of men for the mere purpose of enhancing the value of their combined contributions to any productive enterprise alone, but a co-operation of the various callings and crafts by which men earned the right to remain upon the earth's surface as contributors to the public good. The barriers of trade were to be cast aside; the man who toiled, no matter at what, was to receive and enjoy the just fruits of his labor and exercise of his art whether, as a skilled artisan or the humblest of the toilers of the earth. . . .

On July 18, 1872, Assembly No. 2 was organized, and those who had been connected with No. 1 as sojourners took leave of the parent assembly for the purpose of organizing the SHIP CARPENTERS AND CAULKERS of Philadelphia and surroundings. The second assembly, once under way, the work of organization made rapid progress. Thomas Thompson, the Master Workman of Assembly No. 2, was an untiring worker, and left nothing undone to not only strengthen his own assembly, but to organize new ones. It was the practice to propose and initiate all sojourners in Assembly No. 1, and when a sufficient number were enlisted to draw them out, or allow them to sojourn to a new assembly of their own calling.

The organization of new assemblies did not prevent the workers of No. 1 from initiating persons whose crafts were organized. When a member of No. 1 discovered a man who would make a good member, he proposed his name in No. 1, had him initiated, and then gave him a card with

which to gain admittance to the assembly of his craft. . . .

With the organization of assemblies outside of Philadelphia, there arose a necessity for a UNIFORM CODE OF LAWS, as well as for a printed form of ritual. Up to this time the ritual was not printed. The work was enlarged upon and perfected as the order progressed. The committee on ritual continued to make its reports, adding new forms and ceremonies as the necessity for their use became apparent. It became necessary to have organizers stationed in the cities and towns where assemblies were organized to answer the call for organization as it arose. A trusted member of the order would be selected, his name would be submitted to Assembly No. 1, and if it was deemed satisfactory he would be authorized to organize and found assemblies. . . .

The first committee on constitution of the order of the Knights of Labor, appointed by Mr. Stephens, consisted of representatives Robert Schilling, Chairman; Ralph Beaumont, Thomas King, T. V. Powderly, and George S. Boyle. Two members of this committee, Messrs. Schilling and Powderly, were members of the Industrial Brotherhood; and though neither one knew that the other would be present, both brought with them a sufficient supply of constitutions of the I. B. to supply the body. The adoption of the preamble was left to these two, and a glance at it will show what changes were made in the declaration of principles whose history has been traced down from year to year since it was first adopted by the National Labor Union of 1866.

The committee on constitution adopted the constitution of the Industrial Brotherhood so far as practicable. The constitution, when printed, bore the same legend on the title page as was adopted at the Rochester meeting in 1874. The following is the preamble adopted at Reading, January 3, 1878: "When bad men combine, the good must associate, else they will fall, one by one, an unpitied sacrifice in a contemptible struggle."

#### PREAMBLE

The recent alarming development and aggression of aggregated wealth, which, unless checked, will invariably lead to the pauperization and hopeless degradation of the toiling masses, render it imperative, if we desire to enjoy the blessings of life, that a check should be placed upon its power and upon unjust accumulation, and a system adopted which will secure to the laborer the fruits of his toil; and as this much-desired object can only be accomplished by the thorough unification

of labor, and the united efforts of those who obey the divine injunction that "In the sweat of thy brow shalt thou eat bread," we have formed the \* \* \* \* \* with a view of securing the organization and direction, by co-operative effort, of the power of the industrial classes; and we submit to the world the objects sought to be accomplished by our organization, calling upon all who believe in securing "the greatest good to the greatest number" to aid and assist us:—

I. To bring within the folds of organization every department of productive industry, making knowledge a stand-point for action, and industrial and moral worth, not wealth, the true standard of individual and national greatness.

II. To secure to the toilers a proper share of the wealth that they create; more of the leisure that rightfully belongs to them; more societary advantages; more of the benefits, privileges, and emoluments of the world; in a word, all those rights and privileges necessary to make them capable of enjoying, appreciating, defending, and perpetuating the blessings of good government.

III. To arrive at the true condition of the producing masses in their educational, moral, and financial condition, by demanding from the various governments the establishment of bureaus of Labor Statistics.

IV. The establishment of co-operative institutions, productive and distributive.

V. The reserving of the public lands—the heritage of the people—for the actual settler;—not another acre for railroads or speculators.

VI. The abrogation of all laws that do not bear equally upon capital and labor, the removal of unjust technicalities, delays, and discriminations in the administration of justice, and the adopting of measures providing for the health and safety of those engaged in mining, manufacturing, or building pursuits.

VII. The enactment of laws to compel chartered corporations to pay their employes weekly, in full, for labor performed during the preceding week, in the lawful money of the country.

VIII. The enactment of laws giving mechanics and laborers a first lien on their work for their full wages.

IX. The abolishment of the contract system on national, State, and municipal work.

X. The substitution of arbitration for strikes, whenever and wherever employers and employes are willing to meet on equitable grounds.

XI. The prohibition of the employment of children in workshops, mines and factories before attaining their fourteenth year.

XII. To abolish the system of letting out by contract the labor of convicts in our prisons and reformatory institutions.

XIII. To secure for both sexes equal pay for equal work.

XIV. The reduction of the hours of labor to eight per day, so that the laborers may have more time for social enjoyment and intellectual improvement, and be enabled to reap the advantages

conferred by the labor-saving machinery which their brains have created.

XV. To prevail upon governments to establish a purely national circulating medium, based upon the faith and resources of the nation, and issued directly to the people, without the intervention of any system of banking corporations, which money shall be a legal tender in payment of all debts, public or private.

## PANIC AND DEPRESSION

IN 1869, AS WE HAVE SEEN, David Wells warned Americans against certain structural weaknesses in their economy. To his voice was added that of J. E. Cairnes, the British economist, who found in America's unfavorable trade balance a real cause for alarm. Cairnes's *Some Leading Principles of Political Economy Newly Expounded* (London, 1874) was written before the depression of 1873-79 hit the United States, but his warning of course came too late. His analysis of one of the causes of business stagnation in America—having, of course, in mind that the depression was world-wide—throws interesting light on the country's international position as it was emerging out of a mercantile into an industrial economy.

Cairnes points out that great quantities of foreign capital had entered the United States during the Civil War and immediately after; as a result, the United States could continue to import more than it exported. But this could not proceed indefinitely; the day of reckoning must come. Americans must reduce costs; they must get rid of protectionism; and they must enter world markets with great quantities of goods if prosperity is to be assured in the United States. It will be observed that at certain points Cairnes takes issue with Wells. The selection here used is from the original edition of Cairnes's book.

The panic came in September, 1873, with the failure of the private banking house of Jay Cooke and Company. Other suspensions followed; banks shut their doors; the New York Stock Exchange closed; and New York banks were compelled to issue clearing-house certi-

ficates because currency was drained out of the city. The depression spread and was accompanied by agricultural distress and mass unemployment. The article reprinted from the *New York Commercial and Financial Chronicle* of August 7, 1875, gives a contemporary description of the country's economic difficulties.

The Federal government's only attempt to intervene was to force deflation even further by deciding to resume specie payments, which had been suspended in 1861. In 1875, an act was passed calling for resumption on January 1, 1879, and the Treasury proceeded to the business of accumulating a gold reserve toward that day by selling bonds. The reply of agrarians and their labor friends was a demand for the remonetization of silver. In other words, the government offered deflation as the way out; its opponents, inflation.

The silver agitation—which was to continue during the next quarter-century, in fact as long as commodity prices remained low—arose out of the fact that Congress had demonetized silver in 1873 because the price of silver was too high and it was therefore not being minted. But the discovery of new mines in America and the abandonment of silver by European countries generally now sent the price of the metal down; Americans soon learned that the "Crime of 1873"—as the silverites called the law of that year—had put a stop to the minting of silver dollars.

A more profound analysis of the country's difficulties and a remedy that struck a little closer to the realities came from the New York

Clearing House Association. In 1874, it issued a report calling attention to serious faults in the national banking system. The National Banking Act of 1864 incorporated real weaknesses; one of the most important was the method of handling reserves. Under the law, country banks were made to keep these reserves in "central reserve cities" of which New York was the leading one. Thus, New York banks accumulated large amounts of capital, and tended to lend these funds out on call to brokers to finance stock purchases. But the country funds had to flow out to meet the expenses of bring-

ing in the harvests, and domestic exchanges therefore were being constantly disturbed. The Clearing House Report recommended that its member banks cease paying interest on deposits; it also proposed the rediscounting of commercial paper to render credit more fluid. These criticisms of the national banking system were too early to bear any fruit and it was not until 1913, with the passage of the Federal Reserve Act, that some of these ideas of 1874 were adopted. The selection used here is from a pamphlet edition of the report published in New York in 1874.

### *Some Leading Principles of Political Economy*

BY J. E. CAIRNES

#### PART III, CHAPTER III: INTERNATIONAL VALUES

SEC. 7 . . . But the advent of the Civil War brought with it a series of events, each of potent influence, and which in their combination have sufficed to shake American trade to its centre, and to render the financial position of the Union in presence of Europe unprecedented and critical in the extreme. Of these events the most important were (1) the enactment of the Morrill tariff in 1861, by which the United States passed from what was substantially a free trade commercial régime to one of high Protection; (2) the sudden cessation of cotton cultivation, and, as a consequence of this and of the Civil War, the temporary collapse of the cotton trade with Europe; (3) the creation of an enormous national debt, simultaneously with considerable additions made to State and other debts previously contracted, a large proportion of the funds in both cases being furnished by foreigners; and lastly, the issue of an inconvertible paper currency to take the place of the mixed system of coin and convertible credit which formerly prevailed. The passing of the Morrill tariff and the present rigidly protective system of the United States will be the subject of special examination in a future chapter. For our present purpose it will be sufficient if we attend to the three last of the occurrences named, and mainly to the consequences involved in the sudden increase in foreign indebtedness, taken in connection with the collapse of the cotton trade.

Let us first observe the scale on which the new debt was created. It amounted—we may say in round numbers—to about five hundred millions

sterling, of which some two hundred millions were taken by foreigners. In addition to this, numerous other loans were effected on State, railway, mining, and other securities, reaching in the aggregate a very large sum, of which the amount that found its way to Europe was, according to Mr. Wells, not less than one hundred millions sterling. These transactions were spread over several years—we may say broadly, over the last three years of the war, and the two or three immediately succeeding. Regarding them as they affected the financial relations of Europe and the United States the result may be thus stated:—Europe undertook to send immediately, that is to say, as fast as the several obligations were incurred, some 300,000,000*l.* sterling to the United States; while the United States on her side engaged to pay the interest on this sum to Europe for all time, or until the principal was discharged. The transactions, as I have said, were spread over some five or six years, and, making allowance for the dividends which would be accruing on the investments from the time they were effected, and which might be used as a set-off against the principal sums still becoming due as new investments were made, the amount required to be sent from Europe to the United States during the period under review would not be less than some 40,000,000*l.* sterling annually. Under ordinary circumstances,—in such a state of external trade, for example, as had existed previous to 1860,—so enormous and sudden an increase of payments from one continent to the other could only have been effected through the medium of bullion. The ordinary flow of gold from New York to Europe



would have been suddenly checked, and a counter-current would have set in from Europe to New York,—operations which could not fail to produce a profound ferment in the money markets of the two continents. As it was, however, the settlement of these vast transactions occasioned very little disturbance of any kind. The explanation is mainly to be found in another of the circumstances to which I have called attention, the collapse of the cotton crop; for the effect of this was suddenly to leave the United States without the means of paying Europe for her ordinary importations thence, swollen as these had recently been by large purchases of material of war. In the result the United States stood largely a debtor to Europe on commercial account; while on financial account the balance was not less decidedly against Europe; and, the amounts on both sides nearly corresponding, the settlement of the complex transactions became possible by the simple expedient of setting off one class of obligations against the other. This, in effect, is what was done. The reciprocal obligations of Europe and the United States were thus adjusted for the time, though by a sort of financial *coup de main* that could not well be repeated; and now I invite the reader to contemplate the state of things which has supervened.

Sec. 8. On the termination of the war the cultivation of cotton was, of course, resumed, and already that staple, as an article in the trade of the United States with Europe, has attained its former proportions, if not in quantity at least in value. On her other domestic exports (in which, be it remembered, specie is included) there has been an increase, though not a large one, and only during the last two years. But while this has been the case as regards exports, her imports have risen from 335,200,000 dollars, at which they stood in 1860, the year previous to the war, to 617,000,000 dollars, their amount according to the latest returns. The reader will remember that previous to the war the exports of the United States had, as a normal state of things, exceeded the imports; the excess on this account during the ten years between 1851 and 1860 (inclusive) having amounted to an average sum of 6,000,000 dollars annually. Now, however, the balance is on the other side. It is the imports which are in excess of the exports. In the five years, 1868–1872 (inclusive), the excess amounted on an average to 44,000,000 dollars annually; while in the last year of the period (1872) it grew to no less a sum than 116,000,000 dollars. Now, from the explanations already given the reader will understand that such a state of external trade, assuming it be sound and normal, would

imply a state of financial relations between the United States and Europe in which the former country was largely a creditor of the latter; for it is only on this supposition that a large excess of imports over exports could continue consistently with national solvency. So far, however, from the facts being in accordance with this supposition, they are exactly the reverse of this. The United States is largely a debtor to Europe on financial account, while her exports are not even sufficient to cover her commercial liabilities. It will be worth while to consider this position of affairs somewhat more in detail.

As I learn from figures given by Mr. Wells in his Report for 1868, the dividends due to European holders of United States stocks of various kinds amounted in that year to 80,000,000 dollars. This, however, is but a portion of her extra-commercial obligations to Europe. Her remittances to foreign countries to meet the expenses of her citizens residing or travelling abroad reached in the same year, according to the same authority, so large a sum as 25,000,000 dollars, and it does not appear that there was anything exceptional in this expenditure. Lastly, we learn from Mr. Wells that an annual debt to foreign countries of 24,000,000 dollars more is incurred on account of freights carried in foreign bottoms. The aggregate of these various sums is 129,000,000 dollars, in round numbers we may say about 26,000,000*l.* sterling; and this sum the United States has to pay annually to foreign countries, over and above what she owes on account of her importations. Now, as I have already explained, there is but one means by which a nation can in the last resort discharge her liabilities to other nations—namely, through the value of her products exported. We have seen, however, that the exports of the United States, as things now stand, far from being adequate to the liquidation of her annual aggregate liabilities, are insufficient to meet those incurred on commercial account alone; the deficiency, taking the average of the last five years, having, as I have just shown, reached the large sum of 44,000,000 dollars—let us say in round numbers about 9,000,000*l.* sterling. We have thus a balance of 9,000,000*l.* on commercial account, plus a further sum of 26,000,000*l.* on extra-commercial account,—in all 35,000,000*l.* sterling,—due, year by year, by the United States to foreign countries, in excess of what the value of her exported goods enables her to discharge. The question arises how is this liability to be met. How it has been met up to the present time I have no means of accurately determining, but one expedient, we know, has been brought extensively into



requisition. During the period since the war the sale of American securities in the markets of Great Britain and the Continent has been large and increasing. The United States has ceased, indeed, to add to her public debt, and has even made some progress in reducing it, but it is probable that the proportion of this debt in the hands of European holders has of late increased, and it is certain that the amount of European capital which now finds its way to private investment in America is immensely greater than it has ever been at any former period. Here then is a resource, which, so far as it goes, and so long as it lasts, the United States may employ in liquidation of her uncovered liabilities; the sums payable by Europe in purchase of American securities being as much available in discharge of American debts as if they were obtained in payment of exports. Whether those sums have hitherto proved sufficient for the purpose required, must, for the moment, remain matter for conjecture, but it may be confidently asserted that, in any case, they can only be regarded as a temporary make-shift. No nation can continue to pay its foreign debts by the process of incurring new debts to meet a balance yearly accruing against it; yet this, in truth, is the nature of the financial operation by which of late years the United States has contrived to settle accounts with the rest of the world. Even on the supposition that European investment is to continue on its present scale, the interest upon it would, as I have shown, come in time to exceed the principal annually invested; while the balance uncovered by exports would still remain absolutely unprovided for. These considerations lead me to the conclusion that the present condition of the external trade of the United States is essentially abnormal and temporary. If that country is to continue to discharge her liabilities to foreigners, the relation, which at present obtains between exports and imports in her external trade, must be inverted. Her exports must once again, as previous to 1860, be made to exceed her imports, and this by an amount greater than the excess of that former time in proportion as her financial obligations to foreign countries have in the interval increased. . . .

The conclusion just stated suggests a further reflection. A change in the relation of exports and imports in the trade of a country can only be effected through a change in relative prices (measured in gold or silver) as they exist in that country and in those with which it trades. To establish, therefore, an excess of exports over imports in the trade of the United States, in lieu of the balance the other way which now exists, prices there

must be lowered in relation to prices in Europe. This may be accomplished partly by an advance in prices here not shared by the United States, as in fact has already happened in the case of some important commodities; but it is probable that the end will be reached mainly through a decline of prices on the other side. A considerable fall of general prices, however, is a remedy to which manufacturers and merchants will only submit when pushed to extremity. It will, therefore, only come when credit has been strained to the utmost, and a catastrophe is seen to be inevitable; and then it will probably come with a crash. For these reasons I should be disposed to look forward to the immediate future of American trade as a period of much disturbance and fluctuation culminating, it is possible, from time to time in commercial crises.<sup>1</sup>

#### CHAPTER IV: FREE-TRADE AND PROTECTION

Sec. 4. . . . This elementary truth is so far from being generally appreciated that I should not be surprised if its simple statement should appear to some persons, and possibly even to some economists, as paradoxical. I would ask such to consider what are the true causes of the high remuneration of American industry. It will surely be admitted that, in the last resort, these resolve themselves into the one great fact of its high productive power. Capitalists and labourers receive large remuneration in America because their industry produces largely. That is the simple and patent fact which all must acknowledge. But what is the meaning of a highly productive industry, if it be not a liberal industrial return as compared with the sacrifice undergone? And what again does this mean if not a low cost in relation to the thing produced? I must, therefore, contend that the high scale of industrial remuneration in America, instead of being evidence of a high cost of production in that country, is distinctly evidence of a low cost of production—of a low cost of production, that is to say, in the first place, of gold, and, in the next, of the commodities which mainly constitute the real wages of labour—a description which embraces at once the most important raw materials of industry and the most important articles of general consumption. As regards commodities not included in this descrip-

<sup>1</sup> As I write, the news of the commercial crisis in New York (19 Sept. 1873) has reached me. From the accounts we have yet received it would seem to have had its immediate origin in railway speculation: how far the collapse may be connected with the causes to which I have been calling attention the sequel will probably show.

tion, the criterion of wages stands in no constant relation of any kind to their cost, and is, therefore, simply irrelevant to the point at issue. And now we may see what this claim for protection to American industry, founded on the high scale of American remuneration, really comes to:—it is a demand for special legislative aid in consideration of the possession of special industrial facilities—a complaint, in short, against the exceptional bounty of nature.

Sec. 5. Perhaps I shall here be asked how, if the case be so,—if the high rate of industrial remuneration in America be only evidence of a low cost of production,—the fact is to be explained, since fact it undoubtedly is, that the people of the United States are unable to compete in neutral markets, in the sale of certain important wares, with England and other European countries. No one will say that the people of New England, New York, and Pennsylvania are deficient in any industrial qualities possessed by the workmen of any country in the world. How happens it then that, enjoying industrial advantages superior to other countries, they are yet unable to hold their own against them in the general markets of commerce? I shall endeavour to meet this objection fairly, and, in the first place, let me state what my contention is with regard to cost of production in America. I do not contend that it is low in the case of all commodities capable of being produced in the country, but only in that of a large, very important, but still limited group. With regard to commodities lying outside this group, I hold that the rate of wages is simply no evidence as to the cost of their production, one way or the other. But, secondly, I beg the reader to consider what is meant by the alleged 'inability' of New England and Pennsylvania to compete, let us say, with Manchester and Sheffield in the manufacture of calico and cutlery. What it means, and what it only can mean, is that they are unable to do so *consistently with obtaining that rate of remuneration on their industry which is current in the United States*. If only American labourers and capitalists would be content with the wages and profits current in Great Britain, there is nothing that I know of to prevent them from holding their own in any markets to which Manchester and Sheffield send their wares. And this brings us to the heart of the question. Over a large portion of the great field of industry, the people of the United States enjoy, as compared with those of Europe, advantages of a very exceptional kind: over the rest the advantage is less decided, or they stand on a par with Europeans, or possibly they are, in some instances, at a disadvantage. Engag-

ing in the branches of industry in which their advantage over Europe is great, they reap industrial returns proportionately great; and, so long as they confine themselves to these occupations, they can compete in neutral markets against all the world and still secure the high rewards accruing from their exceptionally rich resources. But the people of the Union decline to confine themselves within these liberal bounds. They would cover the whole domain of industrial activity, and think it hard that they should not reap the same rich harvests from every part of the field. They must descend into the arena with Sheffield and Manchester, and yet secure the rewards of Chicago and St. Louis. They must employ European conditions of production, and obtain American results. What is this but to quarrel with the laws of nature? These laws have assigned to an extensive range of industries carried on in the United States a high scale of return, far in excess of what Europe can command, to a few others a return on a scale not exceeding the European proportion. American enterprise would engage in all departments alike, and obtain upon all the high rewards which nature has assigned only to some. Here we find the real meaning of the 'inability' of Americans to compete with the 'pauper labour' of Europe. They cannot do so, and at the same time secure the American rate of return on their work. The inability no doubt exists, but it is one created, not by the drawbacks, but by the exceptional advantages of their position. It is as if a skilled artisan should complain that he could not compete with the hedger and ditcher. Let him only be content with the hedger and ditcher's rate of pay, and there will be nothing to prevent him from entering the lists even against this rival.

The end here proposed by American enterprise is, it must be owned, unattainable under free-trade; for free-trade is content to turn natural laws to the best account: it does not seek to transcend them. But, though unattainable under free trade, protectionists assure us that the thing may be done by means of their system: It is only necessary, say these authorities, to exclude foreign competition by laying high import duties on the products in which American superiority over Europe is not assured, and the same high returns which attend on American industry in its most productive fields will—the laws of nature notwithstanding—be realized throughout its entire range. And this is, in fact, the undertaking in which those who guide the commercial policy of the Union have been engaged since 1861. Let us for a moment pause and consider how this bold attempt to override the laws of nature has fared.

Sec. 6. And here we are confronted at once with the difficulty of interpreting an industrial experiment. The system of American Protection, in its present exaggerated form, may be regarded as dating from 1861, when the Morrill tariff became law. If all the other conditions of the case had remained substantially the same since that time, we might now, by a mere inspection of results, pronounce without hesitation on the effect of the policy then inaugurated; but, instead of this, observe how the facts stand. In the same year the great Civil War commenced, in the course of which the destruction of human life and of wealth in every form probably exceeded anything which had before occurred within the same time in the history of human affairs. This was soon followed by the creation of an immense national debt, entailing a large permanent increase of taxation, and by the issue of an inconvertible paper currency, circulating throughout the Union, and affecting alike prices and wages in every branch of trade. On the other hand, occurrences of a very different kind marked the course of the period under review. Mineral resources were discovered which are now yielding vast wealth, and oil springs which have become the source of an entirely new and rapidly increasing trade. Railway enterprise, again, during the same time appears to have taken on a new activity, whilst the progress of invention in the mechanical arts has never for a moment flagged. In presence of influences so numerous, so novel, and so vast, each affecting industry in its own fashion so powerfully, who shall say what portion of what we now find existing can properly be attributed to any one of them? . . .

For my part, I have no hesitation in accepting upon this point what appears to be the nearly universal opinion of Americans, that, the period of actual warfare once passed, the influences favouring industrial progress have, on the whole, largely preponderated over those tending to retard it; and that consequently, *if there were nothing else in the matter*, we should be justified in expecting, at all events since 1866, a more rapid expansion of American commerce, and a more liberal return on American industry, than prevailed in the period previous to 1861.

Well, how do the facts tally with this reasonable expectation? I will allow Mr. Wells to answer this question. In his two Reports to Congress, and in his Cobden Club Essay, he has gone very fully and in great detail into the whole subject, and those who desire particulars must be referred to those writings. It suffices here to state in summary the results of his investigations; and these are to the effect, that, comparing the decade 1860-70 with

the previous decade, the commercial progress of the United States has, in the later period, suffered a serious check; that the commercial tonnage has during the same period positively declined; that the business of ship-building has undergone an almost complete collapse; that the rate of increase in the external trade which during the decade 1850-60 had been represented by 81 per cent. on the trade of the preceding decade, has fallen to one represented by 19 per cent.; and, lastly, and on this point I am content to rest the entire case, that—having regard, on the one hand, to the nominal rise in wages reckoned in a depreciated currency, and, on the other, to the nominal rise of prices measured in the same medium,—the real remuneration of the United States labourer in all the leading departments of industry has during the nine years ending 1868 positively fallen in a proportion not less than 20 per cent. on his previous earnings. These are singular results to have accrued from a still unlimited command of rich virgin soil, from enlarged mineral resources, ever progressing mechanical invention, and an industrial energy and enterprise which have certainly suffered no abatement. To what cause are they to be ascribed, and more particularly how are we to account for this lowered rate of return upon American industry? It is possible the ravages of the war may not even yet have been wholly repaired; the gap made in the national capital may not be even now quite filled up. The increased taxation certainly remains, and constitutes a deduction, let us say of some 5 or 6 per cent., from American earnings. The depreciated currency has, no doubt, caused much individual hardship, and introduced more or less derangement into commercial affairs. But who will say that any of these occurrences, or all of them taken together, suffice to account for the facts which Mr. Wells has brought to light—the slackened rate of progress, the arrested commercial growth, and, above all, the diminished reward for the workman? The problem, I must own, is for me insoluble, until I take account of that one influence which, for the moment, I had put aside. I turn to the Morrill tariff, and to the aggravations of that code which have since been enacted. I find there duties amounting, on an average, to 47 per cent. *ad valorem*, imposed on nearly all articles of any importance imported into the United States; on such raw products as coal, timber, iron, hides, and sugar; on such manufactures as clothing in every form, cottons, woollens, and every kind of textile fabric, on manufactured iron,—in a word, on nearly all the raw materials of industry, and many of the most important articles of general con-

sumption. And with these facts before me, the slackened rate of progress, the arrested commercial growth, and the workman's diminished reward become at once intelligible; for these are the precise results which such a system of protection is fitted to engender. With such a barrier as duties amounting to 47 per cent. *ad valorem* erected against foreign importation, what else could happen than a retardation of the growth of external trade? While coal, timber, iron are loaded with heavy duties, can ship-building be expected to prosper? and, as with ship-building, so with some scores of other trades, the details of whose decline will be found in Mr. Wells's repository. But I prefer to rest the case upon the simple fact of the reduced real wages of the workmen; for here the symptom may be regarded as specific. As I have already had occasion to explain, the direct effect of a protective duty, when it is really operative, is to compel, on the part of the community employing this expedient, a resort to more onerous conditions of production for the protected article. Every article, therefore, produced in the United States, which would not have been produced there but for the protective tariff, rep-

resents an expenditure of labour and capital greater than would have been necessary to obtain the same article, had it been obtained under free-trade. In a word, American labour and capital, as a whole, have, effort for effort and outlay for outlay, been producing smaller results since 1861 than formerly; and, this being so, what other explanation do we need of the actual facts which we encounter—of diminished returns on American industry, of a fall in the real wages of labour? . . .

Protectionists then undertook to secure for the protected interests of their country as high industrial rewards as are reaped in the most flourishing branches of United States' production—and, it may be allowed, they have succeeded in their venturesome enterprise. But how? Simply by lowering universally the level of those rewards; by enforcing, through the medium of artificially enhanced prices, a huge deduction from the income of the community at large, and handing over the proceeds to the protected trades. Such is the upshot of this notable attempt to transcend physical laws, and to secure by legislation what nature has denied. . . .

### *The Crises of 1837 and 1873*

#### *From the COMMERCIAL AND FINANCIAL CHRONICLE*

AMONG THE MANY THOUSANDS of men of business, mechanics, manufacturers, skilled laborers, farmers, merchants and others, who carry on or direct the immense productive industry of this country in its many forms, and its trade, banking and other exchanges, how many have had in their own experience any practical knowledge of the necessity of a sound, redeemable currency? . . .

The man who is now 34 years old was only 21 years old 13 years ago when the war caused the suspension of specie payments. He knows so much of the uses and advantages of a redeemable currency, as he may have learned in his youth, or by his reading, or by his good sense and reason. Nearly one half of all the men who direct and performed all the varied business transactions of this great country, have just that knowledge and no more of the reasons why our currency should be like that of the commercial world—"good as gold." The man who is now 38 years old, was of 21 years when the suspension of 1857 occurred, and may remember the circumstances of that sharp but short crisis, the resumption by all banks in the following spring (1858), and the three years of remarkable prosperity which intervened before the war began in 1861. Men who are now

45 years old and more, up to 55, can remember more or less of the financial and business history of the country during the period after the resumption in 1842 down to 1857—fifteen years of State bank currency, generally well secured and redeemed—a specie paying period, marked by recovery from the great prostration and distress that followed the general suspension of 1837, and by great increase in the wealth and population of the country. But he must now be about 60 years old, who was engaged in business prior to 1837, and has personal recollection of that eventful time. It is safe to say that no one who was a merchant, banker, manufacturer or manager of any considerable business in 1837, can now be found who is not a constant and decided advocate of a specie-redeemable currency. . . .

Let us recall briefly the leading events and incidents of "the great crisis of 1837" as it was termed for many years after. But first notice the prominent contrast between that period and the present. Then, the aggregate valuation of the real and personal estate in the United States and Territories was only about one-eighth its present amount; the population was about two-fifths its present number; therefore the wealth per capita

in 1873, when this crisis occurred, was three and one-fifth times as much as it was in 1837. Then, the greater part of the whole number of commercial debtors eventually became bankrupt, though comparatively few of them expected that result during the first year of suspension; now, the cases of actual insolvency among merchants and other active business men have been few, and to their number very few more need be added unless the measures to restore business activity be too long delayed, and the shrinking of values and non-employment of labor and capital be continued until both courage and resources shall be exhausted. Then, suspension of specie payments was coincident with, and a serious part of the crisis; this time, suspension of specie payments was caused by the war, was precautionary, deliberate, and not because the banks were unable to redeem their issues. During the war extraordinary conditions grew up which, being continued with increased force after the war ended, made inevitable, sooner or later, a crisis such as we had, and hid from view (at least the popular view) the irresistible progress to it. These are the great points of contrast or difference between the crisis of 1837 and that of 1873. Following along the salient features of each period, especially those preceding the catastrophes, we shall see the points of resemblance, and the reasons why the experience in one case carries instruction for the other. . . .

The leading events and circumstances of the last twelve years are known to all of us, yet it is necessary to recall them, somewhat in their order of occurrence or sequence. During the war private debt, except for long time and upon mortgage security, was in great part liquidated, and the cash system took the place in trade of the previous credit system. The occurrence of war itself suspended much business and many industries for a time, releasing a large amount of free capital from its previous uses, and making money plenty and cheap for lack of employment. It also destroyed the employment of many laborers. This would have been a condition of stagnation, such as existed after the crisis in 1837, and such as now exists in a small degree, had not the war another and immediate effect. It called into the army and navy a great number of the unemployed men, or other men whose places as workers had to be filled, and it called for loans to the public treasury of all the idle money. This money, as fast as received, was again disbursed among the people for expenses of the war. It soon called into activity a great variety and amount of industrial labor for war purposes. As soon as the magnitude and

probable duration of the war came to be recognized, and the demand that would be made upon the financial strength and resources of the government; and especially when Congress deemed it necessary to make a forced loan of the people by the issue of legal tender notes, every responsible debtor preferred cash payment to holding the gradually depreciating currency. Thus by the brief period of stagnation preceding active war, and by the natural effect of the currency laws, private debt for ordinary business was virtually abolished. The enormous cost of the war was paid by loans from the people in continuous succession. The money once borrowed was disbursed, again borrowed and again disbursed, and this round repeated to the end of the war. Then a war debt remained of about \$3,000,000,000. It will be evident to some thoughtful men that a volume of currency which was sufficient for all the business of the loyal States, and much business which had been done by its agency in the seceding States, when all, in its multiplied forms, was in the highest activity before the war, and was in such excess of the use for it when the war had begun, would have been amply sufficient for the conduct of all the business during the war, including the extraordinary transactions of the government in its prosecution, if the currency could have been protected from depreciation. This is made clear when we remember that even *the capital* borrowed by the government was returning to its lenders as fast as borrowed, and that in 1860-1, specie flowed freely to this country for the balances due us from abroad, after we had paid all our debts due abroad and had paid for all the securities which the approach of our war had caused foreign holders to send home for sale. The further fact should be noted that though we were producing gold at a rapid rate yearly, our exports of gold did not become large in amount until by the depreciation of our currency, and consequent inflation of prices, excessive importations of foreign goods were invited—and further that our *stock* of gold which we held in 1860-1 did not leave the country until time enough had elapsed after the close of the war to show that there was no purpose of early return to specie payments.

But, whether possible or not to have carried through the war without any serious inflation of the currency, and the consequent and inevitable depreciation, the experiment was not tried. The legal tender currency was created, followed, near the close of the war, by the national bank currency. The legal tender notes, the 7-30 notes, and the compound interest notes (all legal tenders) were issued as the increasing exigencies of

the war and the strain upon the government credit demanded them, and the war was carried through successfully, in spite of them, or by means of them, as men may severally think. At the end of the war there was very little of private or commercial debt. The great national debt was held by the banks and by the people. The effect of success was to cause a rapid advance in our national securities in the estimation of foreign capitalists, and at the advanced but still low values, compared with present prices, they were transferred to Europe in large amounts. The loanable capital of the national banks, thus set free, was at once invested in private loans and discounts, and that line, which, in 1865 was so small, went on increasing year after year until 1873, when its further expansion was stopped by the great panic. (In December, 1865, only \$498,843,447, it rose to \$940,233,304 in September, 1873.) Private debts increased even faster outside the national banks, in every variety of form and among all classes of people for purposes of speculation.

By the rise of prices and greater margins of profits in all branches of business during the war, great prosperity or what seemed to be such, prevailed everywhere in the loyal States. Great fortunes had been made, and all but a few unfortunate annuitants whose income did not rise with the cost of living, had seemed to gain in wealth. If in 1865 an account had been taken of the enormous waste of material wealth—not counting that of human life, by the war—and a true balance had been struck between the wealth added and that lost or destroyed since 1861, valued according to the scale of 1861, and all had been marked down to the values of that year, on which side, loss or gain, would the balance have stood? No such computation was made. It was taken for granted that the apparent gain was real, and to some extent it was undoubtedly a gain in the possessions of the people, if the public debt then held by the people could properly be called the people's wealth. They had loaned it to the nation, yet what the nation owed, the people owed. If then it had been wiped out, swept away with one stroke of a pen, the people, as a nation, would have been neither richer nor poorer, save in the effects of doing such a wrong. That debt, constituting the wealth of individuals, but not wealth to the nation, was in the nature of a mortgage upon the aggregate property of the whole people, and as such must be paid. Its transfer to European capitalists since that date, whether for railroad iron or silks, whether for reproductive power or luxuries that have perished, does not change its status. No clear and true view of the situation

to-day can be taken that does not first examine the true situation as it was at the end of war, when we started upon the wonderful career which ended in 1873; and unless we remember that a great part of the apparent gain during the war was only in the higher prices. We had "marked up our stock of goods" without materially increasing their quantity. In one respect, however, a great gain had been made. The war had quickened into fullest life and activity all our productive forces, and thrown new energy into every department of business, under the spur of patriotism and under the stimulus of great profits. It was an abnormal condition and dangerous, yet pleasing to the people, who despised words of warning as the croakings of timid or obstructive men, and preferred the delusive assurance that all was going safely and prosperously by the use of "the best currency the world ever saw." When the war ended not one of the statesmen, and few of the politicians of the country, openly took ground against the promised and expected return to specie payments as soon as the demand debt of the Treasury could be retired. The few politicians who dared hint at repudiation in any form were rebuked by the popular voice. All can now see that the time to restore a sound currency was when the war closed, when the people expressed it, when the banks expected it and held their specie reserves for it, and when there was no great "debtor interest" to suffer by it. That opportunity was lost because Congress did not recognize it and knew not the consequence of losing it. Besides the legal tender notes, a large amount of 7-30 and compound interest notes had to be paid off or funded. While that was in progress it became popular, in and out of Congress, to discourse of the benefits of the irredeemable currency which "could not be drained away by export," and of the "unparalleled prosperity" which it promoted. The policy of contracting the volume of "greenbacks," inaugurated under Mr. McCulloch's administration of the Treasury, became odious, and when contraction had been indiscreetly pushed in the fall of 1867 immediately following the withdrawal of some 200 millions of other Treasury notes, Congress, on February 7, 1868, forbade its proceeding further. In March, 1869, on the accession of a new administration, Congress renewed the pledge of earliest practicable return to specie currency, and the President approved it. Yet from that day in 1868, when Congress forbade any further contraction of the legal tenders, down to the present year, Congress has taken not one step towards the fulfilment of the public pledge, but, on the contrary, it has voted down or buried in

committee every proposition to that end made by the few earnest men who foresaw the coming evil. No other power but Congress could act in the matter, and Congress refusing it, the country was left to drift into the storm. When in 1868 the probability that the irredeemable currency system would be continued indefinitely or until interrupted by disaster, became certainty, the speculative and expansive forces which had grown up during the war, and had since acquired greater strength, found a new impulse and were no longer held in check by that dreaded word, contraction. Old lines of investment were pushed further and new ones created, chiefly in the construction and purchase of railroads, and dealings in their stocks and bonds. The free or loanable capital of the country became locked up. As before stated private and corporate debt increased to a vast amount. The scale of prices, especially of everything required for ordinary subsistence and consumption of the people, was in its average far above the level indicated by the gold premium, and the cost of our manufactures so high as to forbid their export abroad. Speculation and speculative values ruled the day. The currency, twice as large in amount as could be safely used in a prudent and profitable conduct of all the real business of the country, became scarce and much of it had disappeared, no one knew where. In the summer of 1873 there came a pause—again the calm before the hurricane. Men of large capital and men of small means, as well as men possessing only credit, found they had over-invested. As from a common feeling they tried to sell, but others would not buy. Certain great banking houses in New York that had been carrying gigantic railroad and other schemes, with money belonging to their depositors, being called for deposits and unable to pay because they could not convert their securities, were obliged to fail. The storm had come, and in a few weeks the wheels of business were stopped. The banks being already under suspension of payment it was supposed they could go no further down; but they were unable to pay depositors even in depreciated currency, and improvised a new method of payment by Clearing-house certificates. Paralysis had come. Yet this was only a currency panic and it soon passed by. In a few months business was pursuing its usual course, but at lower prices and with great caution; and loanable capital had become more abundant than for many years and for the right sort of securities could be hired at borrowers' rates. It was then hopefully said, business will resume its usual course in the spring. But in the spring it was found that the shops, furnaces, fac-

tories and other industrial works which had been stopped by the panic did not start up again; that many more had been added to the large list of unemployed laborers, and then it was said, everything will revive again in the fall. The fall came, but with it no revival, on the contrary, more suspended works, more failed merchants, greatly reduced profits, or none at all, more idle who would be workers, and more hungry who would not lack bread if they could get work. Then again, the spring was looked forward to with hope and expectation, but now it has also passed, leaving us with hope unrealized, still looking into the future. In many departments of trade the dulness of movement is almost stagnation. Yet there is no lack of either capital or currency. Capital is seeking hire at very low rates in all safe places, while the banks are burthened with currency.

What is the meaning of these strange and seemingly inconsistent conditions, which were expected by but few men and by the most of members of Congress even last winter would have been deemed impossible? It is said that production—meaning the production of the iron and coal mines, the forest, the factories, foundries and workshops—has become excessive, and is now beyond the demand for consumption. Yet production in nearly all departments of mechanical industry is reduced, and is much less now than it was two years ago when there was no excess apparent. Excess arises then only from reduced consumption, not at all from increase of production. The inquiry suggested is, what has so suddenly and so severely reduced the consuming ability of our people? The panic stopped work on many large undertakings, first on long lines of railroads in construction or reconstruction, then on the rolling mills, machine shops, foundries and other works, and then and successively since, other industries, the later ones caused by the earlier through loss of their employment or custom. The stopping of work on railroad building discharged many thousand laborers, and each succeeding suspension has added to the great army of the unemployed. These thousands were forced to reduce expenditure in every way possible and so their enforced economy cut down the employment of yet other thousands, and the reduction is yet progressing. Abundant harvests throughout the world have given cheap bread, yet many thousand families will be nearer to hunger than for many years, for lack of employment, and the circle of enforced idleness, disability and poverty, widens daily. From the works yet running we hear too often that profits diminish from month to month, or



have wholly disappeared. The hope of "better times soon" so cheerfully held by all a year ago, and by fewer, yet many, six months ago, is gradually fading away as the "hope deferred." Capital is ever timid, always seeking security first and profit as its second point, except where long immunity from loss, and the habit of getting excessive interest, as during the five years prior to the midsummer of 1873, had made caution to be forgotten; but now heeding the old maxim that "security falls as interest rises," it is thoroughly scared by the panic and its revelations, and seeks safety. No temptation of excessive interest can soon again lure it into great risks. The extreme of over-prudence now prevails, and the seven per cent of the young manufacturer or machinist who needs \$25,000 to add to the \$50,000 which he owns, for the completion of his works, is refused, while the three per cent of the borrower on government bonds is gladly accepted. On the other hand, the young machinist who has the \$50,000, having looked over the business field and its prospects, has concluded that to make debt to enlarge his

works now would endanger the loss of what he has and he decides not to borrow if he could. Look over the price list of railroad and other corporation bonds and see how many that are regularly paying seven or eight per cent yearly, and have never defaulted, are offered for sale at 65 to 75 per cent, equal to an investment of ten to twelve per cent yearly, while the market rate for loans on the preferred securities is one and a half to two per cent.

Confidence has been terribly shaken. The feeling of to-day in respect of the present and the future is in violent contrast with the feeling eighteen months ago. The change in feeling is far greater than even the change in apparent facts, great as that is. There must be some sufficient cause for all this, and *that cause is the depreciated and irredeemable character of our currency.* Until that cause be removed and a sound true money currency be put in its place, or a law be enacted the sure effect of which will be to secure that result, there can be no restoration of confidence. . . .

### *The New York Clearing House Association Report*

THE COMMITTEE Appointed by the New York Clearing House Association, "*To carefully consider and report what Reforms are required in the practical operations of Banks with each other and with the public, to increase the security of their business,*" respectfully report—

That, in order to reach the object sought by the resolution, it is necessary briefly to review the condition and practical working of the banking system in this city before the commencement of the late panic.

Banks are the natural depositories of the current capital of the nation, passing into and out of active industry and commerce. The balances held by them are for the time specially reserved by their owners from permanent investment, and kept subject to immediate command. They constitute a main portion of the wealth of the community which is not yet ready to be consolidated into fixed capital or immovable forms. The custodians of such funds are consequently bound by the very nature of their trust, to preserve them in their integrity, and to apply them only in such ways as will prevent them from falling into inactivity, and, also, to hold such proportion in ready cash in hand, as long experience has proved to be necessary, to meet immediate demands in every possible emergency. And it may be confidently affirmed that a bank, or banker, who faithfully meets all these obligations, renders a

full equivalent for any benefits which can be honorably derived from the custody of such a trust.

No institution can, in the long run, *purchase* deposits of money payable on demand of the owners, and at the same time secure to itself a just and proper compensation for the business, without violating some of the conditions indispensable to the public safety. It must either use them in ways that are illegitimate and perilous, or use them in excess. This has been abundantly proved by innumerable instances in years past, and the practice of paying interest for such deposits was unanimously condemned by the bank officers in 1857, as one of the principal causes of the panic at that period . . .

The creation of many new institutions, since the late civil war began, which have considered it expedient to purchase public favor, and thus divert to themselves business from established channels, has revived the custom of paying interest upon deposits, and has also led some of the older banks, in self-defence, to yield more or less to the pressure in the same direction, while it has induced others to adopt newer methods of obtaining patronage equally pernicious.

And thus a sharp and degrading competition has not only prevailed among banks in this city, but has been excited as a necessary consequence in other places, where the far reaching enterprise



of some of our associates has led them in pursuit of business, not only from institutions but from all classes of society. Banks throughout the country have been aroused to enlist in the same destructive practices toward each other, and in defence of their various localities. A premium has been unnecessarily given for business which, left to itself, would fall without cost into its natural channels, and adjust itself to such localities as the convenience of the people and the best interests of the country require.

Without such rivalry the resources of the nation would be so diffused among the banks as to give increased financial strength and stability to every part, and not only remove a great cause of irritation, but add to the comfort, efficiency and profit of all.

The evil results of paying interest upon current deposits, avowed when the internal commerce of the nation was conducted upon a specie basis, are greatly aggravated when it is carried on by an *irredeemable* currency, which has a fixed and invariable volume, and which flows to and from the commercial centre with the changes of the seasons. Such a currency is superabundant in summer, and instead of being then naturally absorbed and diminished by redemption, it accumulates in banks, which cannot keep it idle without loss of the interest paid to its owners. Legitimate commerce does not then demand it. It is still subject to instant call. There is consequently no resource but to loan it in Wall Street upon stocks and bonds, in doing which so much of the nation's movable capital passes for the time into fixed and immovable forms of investment, and its essential character is instantly changed. Loans are made with facility upon securities which have no strictly commercial quality, new and unnecessary enterprises are encouraged, wild speculations are stimulated, and the thoughtless and unwary are betrayed into ruinous operations. The autumnal demand finds the resources of the nation unnaturally diverted from their legitimate channels, and they can only be turned back with difficulty and public embarrassment. Such has been our well known experience year after year. Interest upon money has, as a consequence, fluctuated widely from three and four per cent. per annum in summer, to fifteen and twenty per cent. in the fall and winter upon commercial paper, and upon stocks at times to one half and even one per cent. a day. Vicissitudes like these are utterly destructive to all legitimate commerce, and institutions whose operations tend to such results are enemies to the public welfare.

Deposits which are derived from strictly com-

mercial operations cannot fluctuate so widely, from time to time, as to produce disturbance in the community; and banks which confine their business to them, as they naturally arise, are always reliable and regular in their treatment of their dealers, and can be conducted with ease and comfort to their managers and safety to the public. On the contrary, deposits which are purchased by payment of interest, or otherwise, and which must, therefore, of necessity be largely loaned "on demand," are the cause of continual agitation and solicitude to those who hold them in charge. They are certain to be withdrawn at the season of the year, and at the moment most inconvenient to the banks and to their dealers. . . .

When the late panic commenced, the sixty banks composing the New York Clearing House were indebted for about two hundred millions of deposits. Of this amount *three* institutions (paying interest to their country depositors) owed about fifty millions; and including these, twelve banks of similar character owed about one hundred millions; that is to say, twelve institutions held one half of the aggregate deposits, and the other forty-eight, their associates, the other half. The proportionate reserve of legal tender notes in the associated banks was also greatly in favor of the latter number, for the obvious reason, that banks which pay interest upon money can least bear to have any amount of it idle. The active demand first came, as it usually comes, for that portion of deposits due to country banks, who, in addition to their annual necessities, had been disturbed by failures of several city bankers, holding large balances of money due to the interior. These deposits were to a great extent loaned upon stocks and bonds in Wall Street, payable "on call," with the confident belief that they were there earning more than the interest paid for securing them, and were available as promised. But, from the very nature of the case, the rapid withdrawal of deposits from the banks made the "call" from every direction simultaneous, and closed every resource from which the "street" derived its power to respond. Borrowers upon stocks were deprived both of their facilities of borrowing and of all power to sell their securities. The necessary result occurred. Banks which found themselves in this dilemma had no alternative but to ask the assistance of their associates, and the conflagration was so rapid and violent that every consideration of fraternal sympathy, self-preservation and public safety, compelled a general and earnest coöperation; and the majority, who had for long years conducted their business upon

sound principles, and who had patiently submitted to the loss of valuable accounts, drawn from them by their associates, by practices against which they had continually protested, instantly responded to the call by placing their resources at command of those who had done so much towards producing the calamity. Making common cause, the weak with the strong, to avert a universal catastrophe.

An expedient was found by which the stronger banks placed themselves under the unequal burthen, and equalized the pressure, by gathering in their resources and placing them at the disposal of the weaker, who were thus furnished with means to meet the demands of their depositors and to save themselves from public exposure, and their dealers in city and country from disaster and ruin. Meanwhile the public confidence in institutions had become so greatly impaired that the "legal tender reserve" was reduced from thirty-four millions, on the 20th September, to five millions eight hundred thousand on the 14th October—an amount of ready money never before paid out in the same time. Interior banks, whose ready means in hand had always been merely nominal, but whose resources consisted chiefly of credits upon the books of interest paying banks in the principal cities, were under the necessity of calling back their deposits in a medium never before required, and to these the associated banks were asked to respond, as well as to the demands of timid dealers at home. . . .

With these general considerations, your Committee proceed to the more practical questions submitted to them, viz.: *"What reforms are required in the operations of banks with each other and the public to increase the security of their business;"* and, first and most prominent, they recommend *that the banks entirely discontinue the payment of interest upon deposits, whether directly or indirectly.*

#### THE RESERVE

The requirement of a "legal reserve" is now engaging special public attention, and much impatience is expressed at the law which compels Banks to hold a definite ratio of legal tender notes to liabilities. The practical difficulty consists in attaching a rigid and inflexible rule of law to a mobile fund, which is held for the purpose of meeting sudden contingencies, and which is, therefore, in its very nature, a variable quantity. It is impossible clearly to prescribe by statute the circumstances or the exact periods during which the reserve should be increased or diminished. There seems an intrinsic absurdity in a law re-

quiring that a "reserve" must be always kept, which was created on purpose to be used, or that a bank officer who draws upon his reserve, under circumstances for which it was intended, is false to the oath which he takes to obey the law. But the fact that a military commander cannot be definitely instructed when he may employ his reserve force, is not regarded as a reason why that important portion of an army organization should be abandoned, or be reduced in number or efficiency. So long as Bank debts are subject to cash payments, so long must the obligation be either imposed or assumed, of keeping sufficient cash in hand to pay whatever portion can possibly be presented. It must always be remembered that, in the absence of any important central institution, such as exists in other commercial nations, the associated banks are the last resort in this country, in times of financial extremity, and upon their stability and sound conduct the national prosperity greatly depends. In claiming for them that, in taking faithful care of the active capital of the nation with which they are entrusted, they render a full and equitable compensation for its proper use, your Committee point to the consequent and paramount duty of the banks to hold such proportion of that fund in actual possession in cash as the extremest needs may demand.

It has been suggested that the federal principle which our association has applied to banking, through the use of "loan certificates" in two important crises, might be used effectively in regular business, by keeping two separate accounts, viz: "Cash" and "Bank Credit," each payable in kind, to avoid a "run" upon Banks in times of panic; and much speculative study throughout the world is given to the question how the idea of "clearing," as used through banks, may be indefinitely extended to effect the smaller exchanges of the community, so as to dispense in a great measure with large reserves of ready money. But in the present condition of economic science, and especially in this important exigency, your Committee recommend that we accept the teachings of practical experience, and pursue the well beaten track which trade and commerce universally recognize.

Experience of older commercial nations has shown that the volume of "reserve" should be in the proportion of one fourth to one third the direct liabilities of a bank, and whenever it is there found receding from this amount, restrictive measures are taken to replenish it. Our own association in 1857 established a minimum ratio of twenty per cent. in coin, which was for the time

carefully observed, and again in 1860 increased this minimum to twenty-five per cent. The present abnormal condition of the currency increases the difficulty inherent in this subject. The law permits the reserve to consist of coin and legal tender notes, and at the same time compels banks to receive as money the notes of national banks, which in legal payments are not money; so that, for practical uses as "reserve," we are troubled by a species of money which is above, and by another which is below, the standard quality. And it affords a striking commentary upon our present anomalous condition, that the money of the world, which is now freely coming into the country from legitimate commerce, cannot be absorbed into our banking system, but is necessarily repelled as a cause of serious embarrassment. The opinion that has largely prevailed, that because the business of this country is now conducted upon a basis of irredeemable paper, that therefore there can be no suspension of payments, has been most effectually dispelled, and the contrary is established, that a currency, from its nature, limited in volume, is subject to sudden and special dangers, and therefore requires special protection. Recent experience has shown how rapidly thirty-four millions may be withdrawn from our associated institutions, and, for practical uses, how inadequate is the reserve held by country Banks. That reserve, as fixed by law, is fifteen per cent. of liabilities, and three fifths of it may consist of deposits in Banks in the larger cities, who may subdivide it by placing one half their own reserves in Banks in the City of New York, where again it is subject to a further reduction, from the fact that these last are only required to hold twenty-five per cent. of their own liabilities, of which these deposits form part. The aggregate held by all the National Banks of the United States does not finally much exceed ten per cent. of their direct liabilities, without reference to the large amount of debt which is otherwise dependent upon the same reserves. When we consider that a portion of this final reserve may consist of coin, which, under present circumstances, has no practical power in an extremity, and a further fact that the interest paying Banks, which have always held the larger part of those reserves, have been forced by their position continually to dis-

regard the law, it is manifest that the requirement, in its real operation, has not worked against the public welfare, or against the true interests of the Banks themselves.

The abandonment of the practice of paying interest upon deposits will remove a great inducement to divide these reserves between cash in hand, and deposits in cities, and make the Banks throughout the country what they should always be, financial outposts, to strengthen the general situation. The Associated Banks of New York, the ultimate resource in financial emergencies, are deprived by usury laws, of the power, which is so effectively used by the principal Banks in Europe, of protecting or augmenting their resources by adjusting the rate of interest to the necessities of the occasion—a power which, if practicable, Congress might safely confer upon the Clearing House Committee, in consultation with the Secretary of the Treasury, with great advantage to the country; as also the power of deciding when the time or the emergency has arisen in which the public interest requires a relaxation of the rigid legal requirement in respect to the reserve to be held by Banks in New York city.

If the legal or financial necessity exists to maintain a certain reserve, it is manifestly the duty of every institution to carry its just proportion, and no Bank, whether incorporated under National or State Law, can honorably evade its full share of this burthen.

Your Committee therefore recommend *that all the Associated Banks, while they strictly follow the requirements of the National Currency Act, by keeping on hand, either in Coin or Legal Tender Notes, an amount not less than twenty-five per cent. of their total liabilities to the public, be required always to hold at fifteen least per cent. in Legal Tender Notes*, subject only to such modifications as the Clearing House Committee may, from time to time, unanimously determine.

A suggestion has been made, which your Committee consider worthy of notice, because it has heretofore proved an important restriction to excessive expansion, and because it may assist in preventing many of the evils referred to—that *no institution be allowed to loan more than two and a half times its Capital and Surplus. . . .*

# THE UNITED STATES AND THE WORLD

JOSIAH STRONG

WITH THE END of the depression of the seventies and the appearance of revival, Americans began to look outward once more. There appeared a kind of naïve imperialism of which the most sentimental expression was to be found in a Congregational clergyman's book. This was Josiah Strong's (1847-1916) *Our Country*, published in 1885 and addressed to his fellow workers in home and foreign missions.

This was a critical era in world history, Strong declared, and the Protestant churches were being called upon to evangelize the earth. The United States was increasing in wealth and population; it was peopling the West at a tremendous rate and, as the area filled, its perils multiplied. The West would be America one day; hence, all Americans must concern themselves for its moral future. Immigration had a deteriorating effect on Western morals, for immigrants brought to the United States Romanism, Mormonism, illiteracy, and the Continental Sabbath so dear to the liquor industry. Immigrants, uprooted themselves, were also bringing an additional element of instability to an unstable West—that is to say, socialism.

Indications of decline might be seen every-

where in the land. Popular morals, as measured by Sabbath observance, were degenerating rapidly. A heterogeneous people united only by the desire to make money could not hope to establish a solid social order without aid; yet these were the people filling the area west of the Mississippi. The West, "like a child subject to evil influences," stood likely to fall into moral ruin.

Nevertheless, despite all dangers to the West, the Americans were a branch of the "great Anglo-Saxon race." That race had multiplied and had reached its peak of development in the United States. The American Anglo-Saxon was divinely commissioned to rule the world. The divine command must be obeyed. The best means of fulfilling the Lord's command was through a greater awareness of responsibility by those who had prospered. Men did not owe the Lord a tithe of their possessions; they owed Him all. Christians must realize that they are trustees of a property which is God's, not their own.

The selection here reprinted is from the original edition of *Our Country* (New York, 1885).

## *Our Country*

BY JOSIAH STRONG

### CHAPTER XIII: THE ANGLO-SAXON AND THE WORLD'S FUTURE

EVERY RACE which has deeply impressed itself on the human family has been the representative of some great idea—one or more—which has given direction to the nation's life and form to its civilization. Among the Egyptians this seminal idea was

life, among the Persians it was light, among the Hebrews it was purity, among the Greeks it was beauty, among the Romans it was law. The Anglo-Saxon is the representative of two great ideas, which are closely related. One of them is that of civil liberty. Nearly all of the civil liberty in the world is enjoyed by Anglo-Saxons: the English, the British colonists, and the people of the United

States. To some, like the Swiss, it is permitted by the sufferance of their neighbors; others, like the French, have experimented with it; but, in modern times, the peoples whose love of liberty has won it, and whose genius for self-government has preserved it, have been Anglo-Saxons. The noblest races have always been lovers of liberty. That love ran strong in early German blood, and has profoundly influenced the institutions of all the branches of the great German family; but it was left for the Anglo-Saxon branch fully to recognize the right of the individual to himself, and formally to declare it the foundation stone of government.

The other great idea of which the Anglo-Saxon is the exponent is that of a pure *spiritual* Christianity. It was no accident that the great reformation of the sixteenth century originated among a Teutonic, rather than a Latin people. It was the fire of liberty burning in the Saxon heart that flamed up against the absolutism of the Pope. Speaking roughly, the peoples of Europe which are Celtic are Catholic, and those which are Teutonic are Protestant; and where the Teutonic race was purest, there Protestantism spread with the greatest rapidity. . . . Protestantism on the continent seems to be about as poor in spiritual life and power as Catholicism. That means that most of the spiritual Christianity in the world is found among Anglo-Saxons and their converts; for this is the great missionary race. If we take all of the German missionary societies together, we find that, in the number of workers and amount of contributions, they do not equal the smallest of the three great English missionary societies. The year that Congregationalists in the United States gave one dollar and thirty-seven cents per caput to foreign missions, the members of the great German State Church gave only three-quarters of a cent per caput to the same cause. Evidently it is chiefly to the English and American peoples that we must look for the evangelization of the world. . . .

There can be no reasonable doubt that North America is to be the great home of the Anglo-Saxon, the principal seat of his power, the center of his life and influence. Not only does it constitute seven-elevenths of his possessions, but his empire is unsevered, while the remaining four-elevenths are fragmentary and scattered over the earth. Australia will have a great population; but its disadvantages, as compared with North America, are too manifest to need mention. Our continent has room and resources and climate, it lies in the pathway of the nations, it belongs to the

zone of power, and already, among Anglo-Saxons, do we lead in population and wealth. . . .

But we are to have not only the larger portion of the Anglo-Saxon race for generations to come, we may reasonably expect to develop the highest type of Anglo-Saxon civilization. If human progress follows a law of development, if "Time's noblest offspring is the last," our civilization should be the noblest; for we are "The heirs of all the ages in the foremost files of time," and not only do we occupy the latitude of power, but *our land is the last to be occupied in that latitude*. There is no other virgin soil in the North Temperate Zone. If the consummation of human progress is not to be looked for here, if there is yet to flower a higher civilization, where is the soil that is to produce it? Whipple says: "There has never been a great migration that did not result in a new form of national genius." Our national genius is Anglo-Saxon, but not English, its distinctive type is the result of a finer nervous organization, which is certainly being developed in this country. . . .

Mr. Darwin is not only disposed to see, in the superior vigor of our people, an illustration of his favorite theory of natural selection, but even intimates that the world's history thus far has been simply preparatory for our future, and tributary to it. He says: "There is apparently much truth in the belief that the wonderful progress of the United States, as well as the character of the people, are the results of natural selection; for the more energetic, restless, and courageous men from all parts of Europe have emigrated during the last ten or twelve generations to that great country, and have there succeeded best. Looking at the distant future, I do not think that the Rev. Mr. Zincke takes an exaggerated view when he says: 'All other series of events—as that which resulted in the culture of mind in Greece, and that which resulted in the Empire of Rome—only appear to have purpose and value when viewed in connection with, or rather as subsidiary to, the great stream of Anglo-Saxon emigration to the West.'"

There is abundant reason to believe that the Anglo-Saxon race is to be, is, indeed, already becoming, more effective here than in the mother country. The marked superiority of this race is due, in large measure, to its highly mixed origin. Says Rawlinson: "It is a general rule, now almost universally admitted by ethnologists, that the mixed races of mankind are superior to the pure ones"; and adds: "Even the Jews, who are so often cited as an example of a race at once pure and strong, may, with more reason, be adduced on the opposite side of the argument." The ancient Egyptians, the Greeks, and the Romans, were all mixed

races. Among modern races, the most conspicuous example is afforded by the Anglo-Saxons. Mr. Green's studies show that Mr. Tennyson's poetic line, "Saxon and Norman and Dane are we," must be supplemented with Celt and Gaul, Welshman and Irishman, Frisian and Flamand, French Huguenot and German Palatine. What took place a thousand years ago and more in England again transpires to-day in the United States. "History repeats itself"; but, as the wheels of history are the chariot wheels of the Almighty, there is, with every revolution, an onward movement toward the goal of his eternal purposes. There is here a new commingling of races; and, while the largest injections of foreign blood are substantially the same elements that constituted the original Anglo-Saxon admixture, so that we may infer the general type will be preserved, there are strains of other bloods being added, which, if Mr. Emerson's remark is true, that "the best nations are those most widely related," may be expected to improve the stock, and aid it to a higher destiny. If the dangers of immigration, which have been pointed out, can be successfully met for the next few years, until it has passed its climax, it may be expected to add value to the amalgam which will constitute the new Anglo-Saxon race of the New World. Concerning our future, Herbert Spencer says: "One great result is, I think, tolerably clear. From biological truths it is to be inferred that the eventual mixture of the allied varieties of the Aryan race, forming the population, will produce a more powerful type of man than has hitherto existed, and a type of man more plastic, more adaptable, more capable of undergoing the modifications needful for complete social life. I think, whatever difficulties they may have to surmount, and whatever tribulations they may have to pass through, the Americans may reasonably look forward to a time when they will have produced a civilization grander than any the world has known."

It may be easily shown, and is of no small significance, that the two great ideas of which the Anglo-Saxon is the exponent are having a fuller development in the United States than in Great Britain. There the union of Church and State tends strongly to paralyze some of the members of the body of Christ. Here there is no such influence to destroy spiritual life and power. Here, also, has been evolved the form of government consistent with the largest possible civil liberty. Furthermore, it is significant that the marked characteristics of this race are being here emphasized most. Among the most striking features of the Anglo-Saxon is his money-making power—

a power of increasing importance in the widening commerce of the world's future. We have seen, in a preceding chapter, that, although England is by far the richest nation of Europe, we have already outstripped her in the race after wealth, and we have only begun the development of our vast resources.

Again, another marked characteristic of the Anglo-Saxon is what may be called an instinct or genius for colonizing. His unequalled energy, his indomitable perseverance, and his personal independence, made him a pioneer. He excels all others in pushing his way into new countries. It was those in whom this tendency was strongest that came to America, and this inherited tendency has been further developed by the westward sweep of successive generations across the continent. So noticeable has this characteristic become that English visitors remark it. Charles Dickens once said that the typical American would hesitate to enter heaven unless assured that he could go further west.

Again, nothing more manifestly distinguishes the Anglo-Saxon than his intense and persistent energy; and he is developing in the United States an energy which, in eager activity and effectiveness, is peculiarly American. This is due partly to the fact that Americans are much better fed than Europeans, and partly to the undeveloped resources of a new country, but more largely to our climate, which acts as a constant stimulus. Ten years after the landing of the Pilgrims, the Rev. Francis Higginson, a good observer, wrote: "A sup of New England air is better than a whole flagon of English ale." Thus early had the stimulating effect of our climate been noted. Moreover, our social institutions are stimulating. In Europe the various ranks of society are, like the strata of the earth, fixed and fossilized. There can be no great change without a terrible upheaval, a social earthquake. Here society is like the waters of the sea, mobile; as General Garfield said, and so significantly illustrated in his own experience, that which is at the bottom to-day may one day flash on the crest of the highest wave. Every one is free to become whatever he can make of himself; free to transform himself from a rail-splitter or a tanner or a canal-boy, into the nation's President. Our aristocracy, unlike that of Europe, is open to all comers. Wealth, position, influence, are prizes offered for energy; and every farmer's boy, every apprentice and clerk, every friendless and penniless immigrant, is free to enter the lists. Thus many causes co-operate to produce here the most forceful and tremendous energy in the world.

What is the significance of such facts? These

tendencies in fold the future; they are the mighty alphabet with which God writes his prophecies. May we not, by a careful laying together of the letters, spell out something of his meaning? It seems to me that God, with infinite wisdom and skill, is training the Anglo-Saxon race for an hour sure to come in the world's future. Heretofore there has always been in the history of the world a comparatively unoccupied land westward, into which the crowded countries of the East have poured their surplus populations. But the widening waves of migration, which millenniums ago rolled east and west from the valley of the Euphrates, meet to-day on our Pacific coast. There are no more new worlds. The unoccupied arable lands of the earth are limited, and will soon be taken. The time is coming when the pressure of population on the means of subsistence will be felt here as it is now felt in Europe and Asia. Then will the world enter upon a new stage of its history—the *final competition of races, for which the Anglo-Saxon is being schooled*. Long before the thousand millions are here, the mighty *centrifugal* tendency, inherent in this stock and strengthened in the United States, will assert itself. Then this race of unequaled energy, with all the majesty of numbers and the might of wealth behind it—the representative, let us hope, of the largest liberty, the purest Christianity, the highest civilization—having developed peculiarly aggressive traits calculated to impress its institutions upon mankind, will spread itself over the earth. If I read not amiss, this powerful race will move down upon Mexico, down upon Central and South America, out upon the islands of the sea, over upon Africa and beyond. And can any one doubt that the result of this competition of races will be the “survival of the fittest”? “Any people,” says Dr. Bushnell, “that is physiologically advanced in culture, though it be only in a degree beyond another which is mingled with it on strictly equal terms, is sure to live down and finally live out its inferior. Nothing can save the inferior race but a ready and pliant assimilation. Whether the feebler and more abject races are going to be regenerated and raised up, is already very much of a question. What if it should be God's plan to people the world with better and finer material? Certain it is, whatever expectations we may indulge, that there is a tremendous overbearing surge of power in the Christian nations, which, if the others are not speedily raised to some vastly higher capacity, will inevitably submerge and bury them forever. These great populations of Christendom—what are they doing, but throwing out their colonies on every side, and populating themselves, if I may so speak,

into the possession of all countries and climes?” To this result no war of extermination is needful; the contest is not one of arms, but of vitality and of civilization. “At the present day,” says Mr. Darwin, “civilized nations are everywhere supplanting barbarous nations, excepting where the climate opposes a deadly barrier; and they succeed mainly, though not exclusively, through their arts, which are the products of the intellect?” Thus the Finns were supplanted by the Aryan races in Europe and Asia, the Tartars by the Russians, and thus the aborigines of North America, Australia and New Zealand are now disappearing before the all-conquering Anglo-Saxons. It would seem as if these inferior tribes were only precursors of a superior race, voices in the wilderness crying: “Prepare ye the way of the Lord!” The savage is a hunter; by the incoming of civilization the game is driven away and disappears before the hunter becomes a herder or an agriculturist. The savage is ignorant of many diseases of civilization which, when he is exposed to them, attack him before he learns how to treat them. Civilization also has its vices, of which the uninitiated savage is innocent. He proves an apt learner of vice, but dull enough in the school of morals. Every civilization has its destructive and preservative elements. The Anglo-Saxon race would speedily decay but for the salt of Christianity. Bring savages into contact with our civilization, and its destructive forces become operative at once, while years are necessary to render effective the saving influences of Christian instruction. Moreover, the pioneer wave of our civilization carries with it more scum than salt. Where there is one missionary, there are hundreds of miners or traders or adventurers ready to debauch the native. Whether the extinction of inferior races before the advancing Anglo-Saxon seems to the reader sad or otherwise, it certainly appears probable. I know of nothing except climatic conditions to prevent this race from populating Africa as it has peopled North America. And those portions of Africa which are unfavorable to Anglo-Saxon life are less extensive than was once supposed. The Dutch Boers, after two centuries of life there, are as hardy as any race on earth. The Anglo-Saxon has established himself in climates totally diverse—Canada, South Africa, and India—and, through several generations, has preserved his essential race characteristics. He is not, of course, superior to climatic influences; but, even in warm climates, he is likely to retain his aggressive vigor long enough to supplant races already enfeebled. Thus, in what Dr. Bushnell calls “the out-populating power of the Christian stock,” may be found God's final



and complete solution of the dark problem of heathenism among many inferior peoples. . . .

Is there room for reasonable doubt that this race, unless devitalized by alcohol and tobacco, is destined to dispossess many weaker races, assimilate others, and mold the remainder, until, in a very true and important sense, it has Anglo-Saxonized mankind? Already "the English language, saturated with Christian ideas, gathering up into itself the best thought of all the ages, is the great agent of Christian civilization throughout the world; at this moment affecting the destinies and molding the character of half the human race." Jacob Grimm, the German philologist, said of this language: "It seems chosen, like its people, to rule in future times in a still greater degree in all the corners of the earth." He predicted, indeed, that the language of Shakespeare would eventually become the language of mankind. Is not Tennyson's noble prophecy to find its fulfillment in Anglo-Saxondom's extending its dominion and influence—

"Till the war-drum throbs no longer, and the battle-flags are fur'd

In the Parliament of man, the Federation of the world."

In my own mind, there is no doubt that the Anglo-Saxon is to exercise the commanding influ-

ence in the world's future; but the exact nature of that influence is, as yet, undetermined. How far his civilization will be materialistic and atheistic, and how long it will take thoroughly to Christianize and sweeten it, how rapidly he will hasten the coming of the kingdom wherein dwelleth righteousness, or how many ages he may retard it, is still uncertain; but *it is now being swiftly determined*. Let us weld together in a chain the various links of our logic which we have endeavored to forge. Is it manifest that the Anglo-Saxon holds in his hands the destinies of mankind for ages to come? Is it evident that the United States is to be the home of this race, the principal seat of his power, the great center of his influence? Is it true that the great West is to dominate the nation's future? Has it been shown that this generation is to determine the character, and hence the destiny, of the West? Then may God open the eyes of this generation! When Napoleon drew up his troops before the Mamelukes, under the shadow of the Pyramids, pointing to the latter, he said to his soldiers: "Remember that from yonder heights forty centuries look down upon you." Men of this generation, from the pyramid top of opportunity on which God has set us, *we* look down on forty centuries! We stretch our hand into the future with power to mold the destinies of unborn millions. . . .

## JAMES G. BLAINE

THERE WERE SOME among the Reverend Josiah Strong's generation who were more realistic than he. They saw America's opportunities outside of the continental United States, but they understood that these aims had to be prosecuted in a spirit of friendliness and co-operation. Particularly was this true of our relations with the Latin American republics. James G. Blaine (1830-1893), the "Man from Maine," first as Secretary of State in the Garfield Administration (1881) and later as Benjamin Harrison's Secretary (1889-1892), was the first American statesman to seek to link together the countries of the Western Hemisphere in close political and economic ties. The "Good Neighbor Policy" had its origins in Blaine's conception, a half-century earlier.

Blaine was dissatisfied with the purely negative features of the Monroe Doctrine; to him

the function of the United States was greater than that of guarantor of the territorial integrity of the countries of the Western Hemisphere against European aggression. He dreamed of uniting the peoples of the two continents into a loosely defined union in which the United States would play the role of elder sister. Peace would be maintained through the continuous exercise of the good offices of the United States; there would be regular formal conferences for the purpose of planning policies of mutual advantage; trade would be facilitated through treaties of reciprocity.

During his first brief Secretaryship, Blaine, as tokens of his good-will, moved energetically to preserve the peace in Central and South America. He also laid plans for the meeting of a Pan-American Conference in Washington.

The Department of State was in receipt of a number of acceptances to his invitations when President Arthur, Garfield's successor, ordered their cancellation.

In 1889, however, with Blaine again Secretary of State, the first International American Conference was held. Blaine's opening and closing addresses before the Conference are reprinted here. Blaine's ambitious program for the Conference—the drawing up of arbitration

and reciprocity treaties—was not realized, but one solid achievement was underwritten. There was established at Washington a bureau of information of the International Union of American Republics, which subsequently came to be known as the Pan-American Union. Later conferences finally led to the massive achievements of the nineteen thirties and forties.

Blaine's addresses are reprinted from contemporary newspapers.

## *Two Addresses to The International American Conference*

BY JAMES G. BLAINE

### I. ADDRESS OF WELCOME

GENTLEMEN of the International American Conference: Speaking for the Government of the United States, I bid you welcome to this capital. Speaking for the people of the United States, I bid you welcome to every section and to every State of the Union. You come in response to an invitation extended by the President on the special authorization of Congress. Your presence here is no ordinary event. It signifies much to the people of all America to-day. It may signify far more in the days to come. No conference of nations has ever assembled to consider the welfare of territorial possessions so vast and to contemplate the possibilities of a future so great and so inspiring. Those now sitting within these walls are empowered to speak for nations whose borders are on both the great oceans, whose northern limits are touched by the Arctic waters for a thousand miles beyond the Straits of Behring and whose southern extension furnishes human habitations farther below the equator than is elsewhere possible on the globe.

The aggregate territorial extent of the nations here represented falls but little short of 12,000,000 of square miles—more than three times the area of all Europe, and but little less than one-fourth part of the globe; while in respect to the power of producing the articles which are essential to human life and those which minister to life's luxury, they constitute even a larger proportion of the entire world. These great possessions to-day have an aggregate population approaching 120,000,000, but if peopled as densely as the average of Europe, the total number would exceed 1,000,000,000. While considerations of this character

must inspire Americans, both South and North, with the liveliest anticipations of future grandeur and power, they must also impress them with a sense of the gravest responsibility touching the character and development of their respective nationalities.

The Delegates I am addressing can do much to establish permanent relations of confidence, respect, and friendship between the nations which they represent. They can show to the world an honorable, peaceful conference of eighteen independent American Powers, in which all shall meet together on terms of absolute equality; a conference in which there can be no attempt to coerce a single Delegate against his own conception of the interests of his nation; a conference which will permit no secret understanding on any subject, but will frankly publish to the world all its conclusions; a conference which will tolerate no spirit of conquest, but will aim to cultivate an American sympathy as broad as both continents; a conference which will form no selfish alliance against the older nations from which we are proud to claim inheritance—a conference, in fine, which will seek nothing, propose nothing, endure nothing that is not, in the general sense of all the Delegates, timely and wise and peaceful.

And yet we can not be expected to forget that our common fate has made us inhabitants of the two continents which, at the close of four centuries, are still regarded beyond the seas as the New World. Like situations beget like sympathies and impose like duties. We meet in firm belief that the nations of America ought to be and can be more helpful, each to the other, than they now are, and that each will find advantage and profit from an enlarged intercourse with the others.

We believe that we should be drawn together more closely by the highways of the sea, and that at no distant day the railway systems of the north and south will meet upon the isthmus and connect by land routes the political and commercial capitals of all America.

We believe that hearty co-operation, based on hearty confidence, will save all American States from the burdens and evils which have long and cruelly afflicted the older nations of the world.

We believe that a spirit of justice, of common and equal interest between the American States, will leave no room for an artificial balance of power like unto that which has led to wars abroad and drenched Europe in blood.

We believe that friendship, avowed with candor and maintained with good faith, will remove from American States the necessity of guarding boundary lines between themselves with fortifications and military force.

We believe that standing armies, beyond those which are needful for public order and the safety of internal administration, should be unknown on both American continents.

We believe that friendship and not force, the spirit of just law and not the violence of the mob, should be the recognized rule of administration between American nations and in American nations.

To these subjects, and those which are cognate thereto, the attention of this Conference is earnestly and cordially invited by the Government of the United States. It will be a great gain when we shall acquire that common confidence on which all international friendship must rest. It will be a greater gain when we shall be able to draw the people of all American nations into close acquaintance with each other, an end to be facilitated by more frequent and more rapid intercommunication. It will be the greatest gain when the personal and commercial relations of the American States, south and north, shall be so developed and so regulated that each shall acquire the highest possible advantage from the enlightened and enlarged intercourse of all.

## 2. FAREWELL ADDRESS

Gentlemen: I withhold for a moment the word of final adjournment, in order that I may express to you the profound satisfaction with which the Government of the United States regards the work that has been accomplished by the International American Conference. The importance of the subjects which have claimed your attention,

the comprehensive intelligence and watchful patriotism which you have brought to their discussion, must challenge the confidence and secure the admiration of the Governments and peoples whom you represent; while that larger patriotism which constitutes the fraternity of nations has received from you an impulse such as the world has not before seen.

The extent and value of all that has been worthily achieved by your Conference can not be measured to-day. We stand too near it. Time will define and heighten the estimate of your work; experience will confirm our present faith; final results will be your vindication and your triumph.

If, in this closing hour, the Conference had but one deed to celebrate, we should dare call the world's attention to the deliberate, confident, solemn dedication of two great continents to peace, and to the prosperity which has peace for its foundation. We hold up this new *Magna Charta*, which abolishes war and substitutes arbitration between the American Republics, as the first and great fruit of the International American Conference. That noblest of Americans, the aged poet and philanthropist, Whittier, is the first to send his salutation and his benediction, declaring,

"If in the spirit of peace the American Conference agrees upon a rule of arbitration which shall make war in this hemisphere well-nigh impossible, its sessions will prove one of the most important events in the history of the world."

I am instructed by the President to express the wish that before the members of the Conference shall leave for their distant homes, they will accept the hospitality of the United States in a visit to the Southern section of the Union, similar to the one they have already made to the Eastern and Western sections. The President trusts that the tour will not only be a pleasant incident of your farewell to the country, but that you will find advantage in a visit to so interesting and important a part of our Republic.

May I express to you, gentlemen, my deep appreciation of the honor you did me in calling me to preside over your deliberations. Your kindness has been unceasing, and for your formal words of approval I offer you my sincerest gratitude.

Invoking the blessing of Almighty God upon the patriotic and fraternal work which has been here begun for the good of mankind, I now declare the American International Conference adjourned without day.

Part Eight

UNREST AND EXPANSION  
IN THE NINETIES



# INTRODUCTION

## 1. THE FIRST STEPS TOWARD GOVERNMENT INTERVENTION

THE AMERICAN GOVERNMENT could not long occupy that happy state where no obligations for the welfare and prosperity of its people, other than the maintenance of civil order, had to be assumed. True, by its public land, railroad, tariff, and monetary and fiscal policies, it had intervened to further the fortunes of the young industrial capitalism. Once having done that, however, it withdrew, under the assumption that the orderly operations of business and the market place would resolve all perplexities. Such was not to be the case, however, and before long pressures were to appear that were to demand intervention on behalf of the less favored in the economic round. In this direction, American policy developed slowly and hesitantly; indeed, a long period of time was to elapse before even those regulatory acts to curb abuses and unfair practices were energetically enforced. And it was not until the Democracy once more returned to power, with the election of Woodrow Wilson in 1912, that a clearly thought-out program of state interventionism in the interests of small industrial producers, farmers, workers, and the consuming public generally was launched. As a result of the involvement of the United States in World War I, this program was never completed; it may be said that the New Deal, under Franklin D. Roosevelt, in considerable measure, took up the unfinished tasks left by Woodrow Wilson. With the completion of the decade of the 1930s, the United States had undergone another revolution. Then, full intervention had been established as the basis of public policy; and America began to live in the epoch of state capitalism.

*Regulation of the Railroads.* The first step

in the direction of federal intervention came in the field of railroading. Abuses associated with the railroad industry had become oppressive during the seventies and the eighties. Not only had the securities of the railroads been flagrantly manipulated by promoters with the resulting spoliation of investors; not only had management disregarded the comfort and safety of the traveling public; but the discriminatory tactics employed as regards small shippers and farmers had been notorious. The payment of rebates to great business groups in a position to demand them; higher rates for short hauls than for long ones; frequent rate wars which were followed by pools to end competition completely—these were the outstanding malpractices that caused a widespread discontent. Agrarian groups in Western legislatures had sought to come to grips with these evils by the passage of the so-called Granger laws. These had been really ineffective; and they were rendered entirely nugatory by the Supreme Court decision of 1886 in the *Wabash* case. Now the clamor against the railroads could not be stilled; and a reluctant Congress was compelled to take action.

Efforts repeatedly had been made during the seventies to pass railroad legislation through Congress. A bill had been introduced in 1874, had passed the House, but failed in the Senate. The same had been the fate of another bill presented in 1878. Finally in 1885, a resolution was carried calling for a Senate committee of investigation.

The inquiry conducted by this committee proved conclusively all the claims of those who were demanding railroad legislation. The committee, after listening to businessmen and

farmers all over the country, was compelled to declare: "It is the deliberate judgment of the committee that upon no public question are the people so nearly unanimous as upon the proposition that Congress should undertake in some way the regulation of interstate commerce."

Congress debated railroad legislation for a whole year before it finally wrote the Interstate Commerce Act of 1887. Based upon English legislative and regulatory experience, the law provided that all charges made by railway carriers should be "reasonable and just"; that special rates, rebates, and drawbacks were illegal; and that discrimination between persons, places, and commodities was to be proceeded against. No carrier was to charge more for transportation for a short haul than for a long haul when the conditions were substantially the same. Railway pools were outlawed. And railroad companies were to file schedules of rates and to give ten days' notice of changes in rates. To enforce these provisions, an Interstate Commerce Commission was to be set up and was to be given the power of investigating the management of interstate carriers and of making reports upon findings of fact. From there on, the regular judicial machinery of the country was to be invoked to compel enforcement of the rulings of the commission.

President Cleveland established the Interstate Commerce Commission and for a short time the law and the regulations growing out of it were observed. Railroads reduced local rates, simplified schedules, and announced the disbanding of pools. But by 1890 opposition to the commission was out in the open; and indeed, before the decade was over, the federal courts had succeeded in tying its hands so effectively that it became little more than an agency for the collection of statistics.

Witnesses were recalcitrant; the railroads denied that the commission had judicial powers; long periods elapsed between the drawing up of regulations and their final enforcement; and the traveling and shipping public lost heart when, during the years 1887 to 1905,

out of sixteen decisions appealed from the commission, the Supreme Court found for the railroads in the case of fifteen.

In 1897, the powers of the commission were virtually emasculated when the Supreme Court ruled, in the Maximum Freight Rate case, that the commission had no authority to set a maximum rate. The commission had never claimed the rate-making power; it had, however, again and again declared that it might prescribe a modification of rates if discrimination had been established. This the Court denied. The Court indicated that the commission's functions consisted merely of the following: It had the duty of collecting railroad statistics; it had the right to demand the publication of rates by the companies; it could make sure that the carriers did not indulge in rebating and did not discriminate between short hauls and long hauls. It was not until 1906, as a result of the passage of the Hepburn Act, that Congress finally gave the commission the right to reduce rates when complaints had shown them to be unreasonable or discriminatory; and it was not until 1913 that Congress permitted the Interstate Commerce Commission to make a fiscal valuation of railroad properties as the first step toward arriving at a scientific basis of rate making. Intervention had got off to a slow start; but a precedent had been created.

*Monopoly Efforts.* In 1890, Congress took a second step in the direction of the regulation of business when it passed the Sherman Anti-Trust Law. Business was supposed to function according to the classic precepts of the economic textbooks. A free market, in which buyers and sellers met on an equal footing and had full information, presumably fixed prices and determined the quantities of goods that could be absorbed. Inefficiency of management suffered a just fate through bankruptcy. Free competition permitted only the competent to survive and resulted in constantly lowering costs schedules; and consumers benefited through declining prices.

We have seen how, in very real measure,



these laws of the market place actually functioned. Efficiencies improved, prices declined, and great quantities of producer and consumer goods were made available to the American people. Despite tariffs, rebates, and pools, monopoly practices were less characteristic of American industrial capitalism, during the first generation of its growth, than was true of the English and German counterparts. This does not mean, however, that there did not appear from time to time attempts to limit competition.

During the sixties and seventies, occasional pools had been formed by which combinations of producers in the same industry had sought to fix prices, limit production, and allocate markets. But these were illegal devices under the common law and could not be enforced in the courts. The fact is, pooling agreements were quickly violated by the members themselves, who often entered upon such arrangements only for the purpose of learning the trade secrets and policies of competitors.

But a more determined effort—this time participated in by important groups of industries—appeared in 1879 when the “trust” was created. The first such agency was the Standard Oil Trust, and through it some forty companies combined to control 90 percent of the oil refining business and 90 percent of the pipe lines of the country. The Standard Oil Trust, as revised in 1882, was ruled over by nine individuals among whom the outstanding figure was John D. Rockefeller. Put simply, the trust worked this way: The participants in it did not surrender their corporate identities or merge their assets. They created a small board of trustees to whom were assigned the stocks of the cooperating members; and against these were issued trust certificates. These could be traded in; and of course profits from joint operations were divided among the holders.

Between 1879 and 1896, about a dozen such trusts made their appearance, the most important being found in oil refining, cottonseed oil, whisky distilling, and sugar refining. Be-

cause trust agreements were matters of record, the trust could be prosecuted under the common law. Louisiana instituted such a proceeding against the cottonseed oil trust in 1887; New York moved to dissolve the sugar trust in 1889; and Ohio launched a similar attack on the Standard Oil Trust in 1890. Such state prosecutions were successful and trusts were ordered dissolved.

Beginning with 1897, and finding a welcome reception in the state of New Jersey (which passed permissive legislation), holding companies and mergers replaced the trusts. The holding companies either bought outright all the separate organizations they were combining, or acquired control of each unit through purchase of a majority of the stock; for management purposes, however, corporate identities were preserved. Mergers threw all resources and capital together and started out afresh as new corporations. This third effort to establish monopoly controls lasted for about seven years. Among its most significant fruits were the Standard Oil Company of New Jersey, the United States Steel Corporation, International Harvester Company, and the American Sugar Refining Company. (In the next section their practices and history will be examined in greater detail.)

Despite these attempts, it is doubtful whether the free market was seriously interfered with before 1897. But after 1897, another tale was to be told. From then on, prices were managed—this was true notably of heavy industry where the holding companies and mergers appeared in such great numbers; and real wages made no gains. It may be said, therefore, that the era of a freely functioning competitive economy—certainly as far as heavy industry was concerned—really did not continue for much more than a generation. With the retirement from active management of the original company of industrial innovators—Andrew Carnegie, John D. Rockefeller, Cyrus H. McCormick—an epoch ended.

*The Sherman Anti-Trust Law.* Because of the popular outcry against monopoly, federal

intervention again was necessary. The Sherman Anti-Trust Law was passed in 1890. This declared that every "combination in the form of trust or otherwise, or conspiracy, in restraint of trade" was illegal. All persons so combining or conspiring were guilty of misdemeanors and were punishable by fine or imprisonment. The federal circuit courts were invested with jurisdiction; and the federal attorneys were empowered to begin proceedings in equity to check violations. At the same time, a person injured by a combination in restraint of trade might sue in the federal courts for three times the damage sustained by him.

Having committed its good intentions to the statute books, Congress, and those who had supported it, could only hope that the federal Department of Justice and the federal courts would proceed to enforce the law vigorously. They were doomed to disappointment. In the first eleven years that the act was on the statute books, that is to say, during the Harrison, Cleveland, and McKinley administrations, a total of forty cases was passed on by the federal courts. Of these, only eighteen were brought by federal attorneys, and only ten of them were successful. The character of the respondents indicates the failure of the Sherman Anti-Trust Law. Against combinations in sugar refining, whisky distilling, and the manufacture of cash registers, the Department of Justice failed; but against three local

associations of coal operators, two railroad associations, one cast-iron pipe pool, and four labor unions, the government's attorneys obtained favorable decisions.

The Supreme Court, whose growingly conservative temper, particularly in its interpretation of the Fourteenth Amendment, has already been alluded to, became now the center of bitter attack. Its popularity was not increased—rather, the reverse—when in 1895 it handed down three decisions. One of these, in the *E. C. Knight* case, found that the sugar trust, while it did control 95 percent of the production of refined sugar in the country, was not a combination in restraint of trade. Another declared that Eugene V. Debs, the secretary of the American Railway Union, could be sent to jail for violation of an injunction. And the third held the income tax provision of the 1894 tariff act unconstitutional.

Thus small producers, farmers, and organized labor were antagonized. These rebuffs at the hands of a conservative judiciary; the incapacity or unwillingness of Cleveland's administration to proceed with greater energy against the great industrial combinations; the continuance of depression and the administration's helplessness in the face of it, together with hard times in the agrarian West and South, led to a mobilization of new forces. Out of this climate and in a truculent temper the Populist movement emerged.

## 2. *THE POPULIST RISING*

We have already seen how Greenback groups and agrarian parties, from time to time receiving support from small labor organizations, had appeared in the political arena in the seventies and eighties to contest the supremacy of the Republican and Democratic parties. They had failed; but they prepared the way for Populism, and in 1896 the People's party captured the Democratic party and almost triumphed. Populism did not seek to part

company with the free enterprise system and, to this extent, it was not a radical movement by the European reading of the term. Its leaders and much of its following came from the property classes themselves. But by demanding large-scale public intervention—in railroading, finance, the land and its resources, the welfare of the laboring populations—Populism would have struck a significant blow at industrial capitalism. Populism had another significance:

it was the last stand by agrarianism in political terms. The farmers of the West and the South, again supported by labor, put forth their greatest efforts—but they lost, and with their defeat went the power of the American farmers as an independent force. From then on, America's farmers could function only as a pressure group and were successful only when they held the political balance of power.

*Farmers' Alliances.* The Grange had collapsed by the early eighties, as we have seen, but before the decade was over there had emerged in its place two groups of powerful farmer organizations, one in the West and another in the South. In the Northwest this came to be called the Northwestern Alliance; in the South, the Southern Alliance. In St. Louis, in December, 1889, the Southern Alliance met in annual convention. There also appeared here representatives from the Northwestern Alliance, the National Colored Farmers' Alliance, and the Knights of Labor. The first efforts at fusion of the two great farmer bodies failed, but a set of resolutions was adopted in which both concurred. These called for: the free coinage of silver; the abolition of national banks; government ownership of railroads; ownership of lands by Americans only; the prohibition of trading in grain futures; and the end of protective tariffs. A separate resolution, passed by the Southern Alliance only, advocated the adoption of the subtreasury plan.

The subtreasury scheme, which was really the heart of Populist fiscal policy, called for government financing of farm surpluses. The plan proposed that the Federal government establish county warehouses to which farmers might bring their nonperishable products—grains, tobacco, cotton, sugar, wool—and for them obtain certificates of deposit. Upon presentation of these certificates to a so-called subtreasury office, farmers would then be entitled to loans in legal-tender notes up to 80 percent of the market value of the products stored. The certificates of deposit also were negotiable, and any person holding them might

receive either a loan in legal tenders or the goods held against them.

Thus, the subtreasury plan was intended to set up a commodity basis for credit; to free the farmers from having to rely on the banks for their short-term credit needs; to make possible the orderly marketing of crops; and to use the federal Treasury surpluses for agricultural relief. The Populists, under the pressure of the Democrats, abandoned the subtreasury idea in 1896. And when they failed, the hope of rural credit relief went out with their cause. It was not until 1913, under the New Freedom, that any attention was paid this problem; and not until 1933, under the New Deal, that commodity loans began to be made. But the New Deal perverted the idea—for it linked commodity loans with crop restriction.

*The People's Party.* It will be noted that this first farmer platform of 1889 did not advocate political action. But in 1890, the farmers were mobilized and already at the polls. In Kansas, Nebraska, and South Dakota, organizations appeared calling themselves the People's party, or variants of that name, and began to agitate for the passage of the agrarian program. During the decade after 1887, drought and locusts had swept the Great Plains, and crop failures were the rule. But low prices—set in world markets—continued to prevail; so that farm debts were becoming too heavy to bear. The inability of commercial banks to render assistance made Kansans notably desperate. Their People's party appeared in June, 1890.

A company of local leaders—Mary E. Lease, Jerry Simpson, W. A. Pfeffer—sprang up to preach the farmers' crusade. Appearing in the small white churches and the little red schoolhouses of the plains country, and employing all devices of American revivalism, they whipped up their followers into a frenzy. There was an unholy combination of the railroads, the monopolists, the national banks, and the mortgage companies. Money was scarce; interest rates were high; taxes were exorbitant; prices were low; and the railroads,

the middlemen, and the protected industries were fattening themselves at the expense of the farmers.

In 1890, these Kansas Populists elected five Congressmen, sent Peffer to the Senate, and captured the lower house of the state legislature. Their methods and successes were being duplicated everywhere in the South and West. In South Carolina, farmers swept the state and elected Benjamin Tillman governor. In South Dakota, they sent the Reverend J. H. Kyle to the Senate. From Virginia, North Carolina, Mississippi, Kentucky, and Missouri, Democratic Congressmen with Populist ideas went to Washington.

It was inevitable, as a result of these victories, that the Southern Alliance men and the Northwestern Alliance men should join hands. The Southern farmers met in convention at Ocala, Florida, in December, 1890; the Western farmers met in Cincinnati in May, 1891; and in St. Louis, in February, 1892, union was effected under the name of the People's party. Here were to be found all the outstanding leaders of farmer groups of the South and West. To their company had been added Ignatius Donnelly of Minnesota, who wrote the preamble to a platform that fired the imagination of the South and West.

With a manifesto ready and a program of demands beaten out as a result of long discussions, the Populists could now enter the national political arena. On July 4, 1892, at Omaha, a convention assembled. The Omaha platform, the first formal Populist document, read like a text in agricultural economics. It called for financial reform, government ownership of railroads and telegraph, and the elimination of corporate and foreign ownership of land. The financial plank included all the monetary and fiscal devices which agrarians had been demanding over the previous two decades: the emission of greenbacks; the end of national banks; the subtreasury plan; free silver; a graduated income tax; the establishment of postal-savings banks; tariffs for revenue only. An additional set of resolutions,

not written as such into the main platform, sought to enlist the support of a wider following. These included: benefits for war veterans; the restriction of undesirable immigration; an eight-hour law for government employees; the abolition of private detective agencies; popular election of Senators; and the adoption of the initiative, the referendum, and the Australian ballot. As their candidates, the Populists named General James B. Weaver of Iowa and General James B. Field of Virginia.

*Election of 1892.* The Populists met with an extraordinary success. Weaver received more than a million popular votes and obtained 22 votes in the electoral college. In many states of the South the Populists captured the Democracy. In Kansas they elected their whole state ticket and controlled the legislature. A total of ten Congressmen, five Senators, fifty state officials, and 1,500 county officers and state legislators was the Populist harvest in 1892. The off-year elections of 1894 repeated these triumphs. It had become clear that Cleveland's leadership had been repudiated by the Democracy of the South and that the West was lost to the Republican party. Everywhere, reformers were flocking to the new party's standards, upon which were inscribed this slogan: "People's transportation . . . people's money . . . people's land . . . people's wealth . . . and people's cooperation." A revolution seemed to impend as the Populists made ready for the 1896 campaign.

*The Depression of 1893-1897.* With 1893, unrest moved out of the agrarian communities and swept over the whole United States. A financial panic appeared. Prolonged into a four-year depression, it reached into every small community as well as all the great commercial centers, bearing its train of credit deflation, business failure, and unemployment.

The panic of 1893, like that of 1873, had started first in the European money markets, following the collapse of the London investment banking house of Baring Brothers. European-held securities were again returned in large quantities to the United States; and

again bank balances were withdrawn. The national banking system had learned nothing from 1873; and its incapacity to mobilize reserves effectively further aggravated the situation. Country banks began to withdraw their deposits from the banks in the central reserve cities; these, in turn, contracted their call money loans; and brokerage houses were rendered insolvent. These financial pressures spread out in widening circles and affected also those corporations and businessmen who had overexpanded their operations and, more particularly, their inventories.

Railroads were hard hit. They stopped purchasing steel; steel prices began to drop, and wage cuts took place. In July, 1893, the Erie Railroad failed; and before the year was over it was followed into the bankruptcy courts by the Northern Pacific, the Union Pacific, and the Atchison. By 1895, 156 railroads, operating 39,000 miles of track, were in receivership; these represented a valuation of two and one half billions of dollars, or one fourth of the total railroad capitalization of the country. Also, more than 600 banks and loan companies, among which were to be found 158 national banks, had closed their doors. A vast army of unemployed appeared, who, because of the failure of government to furnish relief or other remedial measures, took to the road as vagabonds. Many strikes broke out, and the year 1894 saw nearly 750,000 workers involved in industrial disputes. The great strike on the Western railroads, called by the American Railway Union, was only one of these bitterly fought trials of strength.

The growing impatience of labor, in the face of wage cuts, had been demonstrated two years earlier in the Homestead strike of 1892, called by the Amalgamated Association of Iron and Steel Workers against the Carnegie Steel Company. This union, at that time the most powerful one in the country, had succeeded in obtaining company recognition and had pioneered in the writing of wage agreements. It was prepared to carry on a long struggle against the Carnegie Company, but

the employment of private Pinkerton detectives and the calling out of the entire Pennsylvania national guard against the strikers broke the spirit of the men. They gave up after a strike lasting six months; their union was smashed; and it did not reemerge as a significant force in the steel industry until 1936.

The railway strike of 1894 originated in the Pullman Parlor Car Company works in Illinois. A strike among the employees of this company—which resulted in their eviction from the company-owned homes—enlisted the sympathy of the American Railway Union, an industrial union which had been organized in 1893 by Eugene V. Debs. In June, 1894, the American Railway Union voted not to handle the Pullman cars attached to trains on which its members worked; and in a few days the boycott had spread over the Middle West and the Far West. As a result of the refusal of the railway managers to treat with the union, lawlessness broke out in Chicago. On the ground that the carriage of the mails was being obstructed, Cleveland's Attorney General, Richard Olney, directed the federal attorney of Chicago to obtain an injunction against the American Railway Union. As a result of Olney's opinion that the union could be proceeded against under the Sherman Anti-Trust Law, a court decree was issued ordering the officials of the union to desist from obstructing the carriage of the mails. Similar injunctions were obtained elsewhere, and, to enforce them, Cleveland sent federal troops into the Chicago district without consulting the local authorities as to their necessity. In this way, the strike was broken. Debs and other union leaders were cited for contempt in violating the injunctions, and were jailed. It has already been pointed out how the Supreme Court's refusal to reverse the lower courts put organized labor into an ugly mood.

President Cleveland's only effort to come to grips with the depression was a demand upon Congress for the repeal of the Sherman Silver Purchase Act of 1890. To him there

was only a single reason for business failure and domestic tension; and this was silver. The world, he argued, fearing the inability of the United States to maintain a gold standard, was dumping American securities on our markets and in this way draining off our precious metal reserves. Congress reluctantly complied, having no proposals of its own to offer, and after a stormy debate in October, 1893, the Silver Law was rescinded. But Cleveland's troubles were not over with its repeal. The Treasury was still vulnerable because the gold reserve being maintained to safeguard the greenbacks was constantly being eaten into by the presentation of Treasury certificates and legal tenders for gold coin. The reserve was also being cut down through the withdrawal of European short-term bank credits and the sale of European-held securities. Whereas the gold reserve of the Treasury in 1891 had stood at 300 millions of dollars, in November, 1893, it was at 59 millions.

The Treasury therefore resorted to four bond sales in an effort to build up its gold supply. The first three, sold in January, 1894, November, 1894, and February, 1895, were all placed with private bankers. The Treasury's operations were unsuccessful: for the

bankers got their gold largely from Washington through the presentation of legal tenders for redemption. The third loan, which was turned over to a syndicate headed by the houses of Belmont and Morgan, was floated on such unfavorable terms that a storm of indignation swept the country. It is true that the bankers promised not to obtain their gold from the Treasury itself; but they bought bonds for 104½ at a time when the United States 4s were bringing 111 in the open market; and then they turned about and sold their bonds at prices averaging around 118. For the handling of a loan of sixty millions of dollars, the syndicate made more than seven millions in profits. Ironically enough, this flotation was no more successful than the first two, for by December, 1895, the gold reserve had dropped to 79 millions. A fourth loan in January, 1896, was now attempted, but this time it was sold to the public. It was heavily oversubscribed and the average price that the government obtained was 111. Floated for 100 millions of dollars, at least two fifths of the gold that the government obtained came from the Treasury itself. Gold came out of its hiding the very next year when the depression ended, but not soon enough to end Cleveland's troubles.

### 3. 1896

*The Conventions.* Thus the stage was set for the crucial campaign of 1896. The Republicans met first and, under the skillful leadership of Mark Hanna of Cleveland, in their convention at St. Louis in June, 1896, they adopted a platform that boldly took up the challenge of the agrarians and their labor friends. This included a plank calling "unreservedly for sound money"; and another defending its protective tariff policy. For its standard bearer, it named Hanna's friend and protégé Governor William McKinley of Ohio and picked Garret A. Hobart of New Jersey for the vice presidency. Hanna himself was elected chairman of the Republican National Committee.

The Democrats met in Chicago in July, and it was at once apparent that their ranks were divided. It is true that in state convention after state convention, they had repudiated Cleveland and had passed resolutions favoring the free and unlimited coinage of silver. But Cleveland had control of the powerful federal patronage and therefore a large following committed to his cause was present at the convention.

Nevertheless, as the throngs poured into Chicago, it was clear that the silver men would leave no stone unturned in their efforts to convert the Democracy into a free silver party. The fact is, this faction picked the convention's temporary chairman and took posses-

sion of the resolutions committee. The money plank that it wrote, defied the Cleveland "gold bugs" and the Republican party. It read:

We are unalterably opposed to monometallism, which has locked fast the prosperity of an industrial people in the paralysis of hard times. Gold monometallism is a British policy, and its adoption has brought other nations into financial servitude to London. . . . We demand the free and unlimited coinage of both silver and gold at the present legal ratio of sixteen to one without waiting for the aid or consent of any other nation.

The humiliation of Cleveland went even further. Other planks of the platform pledged the Democracy to opposition to the further issuance of interest-bearing bonds in times of peace and to the emission of bank notes by the national banks. The platform declared its loyalty to tariffs for revenues only. It attacked the Supreme Court for its decision against the income tax law and it spoke up against "government by injunction."

It was in the debate on the platform—for a minority of the resolutions committee had brought in an adverse report—that William Jennings Bryan of Nebraska emerged as the "Boy Orator." Only thirty-six years of age at the time, he was the last of six speakers to discuss the currency plank: and before he had finished, the assembled host knew that it had found its leader. In the stirring peroration of his address, he threw down the gauge of battle:

Therefore, we care not upon what lines the battle is fought. . . . If they dare to come out into the open field and defend the gold standard as a good thing, we will fight them to the uttermost. Having behind us the producing masses of this nation and the world, the laboring interests, and the toilers everywhere, we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns—you shall not crucify mankind upon a cross of gold!

There was little doubt of the result. The platform was adopted; and, on the fifth ballot, Bryan was named the candidate of the Demo-

cratic party. As his running mate, the Democrats nominated for the vice presidency Arthur M. Sewell of Maine.

There was nothing for the People's party to do, when it assembled at St. Louis on July 22, but to endorse the Bryan candidacy and accept the free silver issue as the outstanding one of the campaign. There were radicals in the ranks of the Populists who protested at the submergence of a third party movement that had gained such extraordinary victories in the first four years of its life; and they resented the dropping of the subtreasury plan. They finally took Bryan, but insisted upon the nomination of Tom Watson of Georgia for the vice presidency. A good deal of confusion followed and, in some of the Southern states, independent Populist tickets were named.

*The Campaign.* Bryan carried on a remarkable campaign. He moved up and down the whole country, visited twenty-nine states, and made six hundred speeches in all. To his support rallied all the agrarians, all the monetary extremists and cranks, and all the laboring forces of the nation. Against him were mobilized the great industries, the banks, the railroads, and virtually the entire Eastern press. Mark Hanna's achievements were also cast in an heroic mold. He established two headquarters, one at New York and one at Chicago; he hired 1,400 speakers; he subsidized country newspapers; he issued tons of leaflets, hired innumerable bands; and flooded the nation with posters, brassards, and buttons.

McKinley won, but it was a very close election. McKinley received seven million popular votes to Bryan's six and one half million; and 271 electoral votes to Bryan's 176. The swing of a few thousand votes would have put Bryan into the White House. McKinley's pluralities in Indiana and Ohio were very small, and in Kentucky, Delaware, West Virginia, North Dakota, and Oregon, they were microscopic. But he carried every great industrial state. Bryan won in the Solid South, in Missouri, and in the Western states of Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, South

Dakota, Utah, Washington, and Wyoming. The defeat of Bryan, ironically enough, destroyed Populism. It is true that the People's party continued to nominate candidates in 1900, 1904, and 1908—but its force had been spent. In part this was due to the fact that the Democracy's ideology continued to contain a large leaven of Populist thinking. But more important was the return of prosperity, after 1897, to America's agrarian communities; from then on, the Middle West and the Far West once more reappeared in the Republican column of states.

The 1896 election, too, put an end to the free silver controversy. The rise in prices; the great additions to the gold supply of the world from the new Alaskan and African mines; bank

credit expansion with the return of prosperity—all these laid the ghost of bimetallism. When the Currency Act of March, 1900, was passed, there were few to say it nay. The new law founded the monetary system of the country on the gold standard; established a Treasury reserve fund of 150 millions of dollars; and provided for the maintenance of this reserve by the sale of short-term bonds. Some concessions were made to the agrarian demand for more credit facilities by permitting the national banks to issue notes up to the par value of bonds deposited with the Treasury, instead of the 90 percent as had been the case before; and also national banks could be organized with a minimum capital of \$25,000 in towns of 3,000 or less.

#### 4. THE GILDED AGE

*Social Contrasts.* The Civil War had released the energies and imaginations of the industrial capitalist class, and with the manifold opportunities presenting themselves on every hand—in the exploitation of raw material resources, in transportation, in manufacturing, mercantile pursuits—it grew to wealth and power. Ventures, requiring little capital, bloomed on every bush; and restraints were few. Money was made easily and frequently was spent riotously—often by people who had no taste in food, clothing, architecture, and house furnishings. For the Doric simplicity of the Middle Period, there was substituted a crazy composite of styles and attitudes that seemed to combine all the faults of every preceding age.

Nothing demonstrated this better than the homes in which the upper classes lived, and the interior decorations by which they surrounded themselves. Houses were copied from the Italian, the English, the Swiss, the Persian, and the French. It was the age of the jigsaw, the cupola, the mansard roof, and the castle. The interiors were no better. Rooms were loaded down with massive furniture of black walnut

or golden oak. The tables had jigsaw skirts, the sideboards were rarely complete without their rows of shelves, topped by pointed arches. On the walls, in whatnots, on top of moldings, were statuettes, bronzes, shells and vases, and china and porcelain—all representing the poor taste of peoples from every corner of the earth. Men and women overate and overdressed. "Society" engaged in barbaric displays, seeking its inspiration apparently from the vulgarity of imperial Rome.

At the other extreme of the social scale lived the tens of thousands of the country's industrial population, massed together in the tenement houses and the slums of the great cities of the United States. These wretched dwellings were cheerless, cold, closed to the sun and air, and often without running water. Here came to live the new immigrants from southern, central, and eastern Europe; and as they filled the rookeries of New York and Chicago, they also fell under the exploitation of the sweatshop proprietors. Because cities grew in advance of their public services, contagious and infectious diseases swept through the slum communities. The death rate for



children under five years was appallingly high; but the death rate among young men and women—notably from tuberculosis—was also great. It was not until the appearance of rapid transit facilities and the development of a more vigilant policy on the part of municipal authorities that the meaner congested areas of the metropolises began slowly to melt away. By the next century, urban dwellings began to improve somewhat.

Despite these great extremes of wealth and poverty, as expressed in the lives of the new industrial capitalists and the immigrant slum dwellers, America was still the land of the middle class. Millions of American families lived in thousands of towns and small cities up and down the land where they spent their days quietly and pleasantly. For the most part these people were small merchants or skilled factory craftsmen; their incomes were adequate for the enjoyment of a modest and secure life; they were already possessing, before the century was over, bathrooms, central heating, and plumbing. The community living of America's towns still had about it much of the neighborliness of the antebellum period. Here lived the people who supported America's great evangelical churches and its small denominational colleges; who joined the Women's Christian Temperance Union and the Anti-Saloon League; who maintained local opera houses, which were visited by touring theatrical companies; and who thronged the lyceums of the seventies and the Chautauqua assemblies of the eighties and nineties. Its men had their fraternal lodges and mechanics' halls; its women their clubs for the study of Shakespeare, Browning, and the civilizations of Greece and Rome; its young people their singing societies and bicycle groups. The great world of Europe and the Far East—except through the agency of the foreign missions—rarely knocked on the doors of this America.

*Social Progress.* On every hand there were signs of social progress. Public education, during this period, increased by leaps and bounds. The first compulsory school attendance law

had not been passed until 1854 by Massachusetts; but by 1900, nearly all of the states and territories in the North and West carried such legislation on their statute books. In 1870, seven million of America's children were enrolled in public schools; by 1900, their numbers had more than doubled. The public high school also was emerging, and in 1900 six thousand such schools had half a million students.

Americans were not yet going to college in large numbers. However, the lyceum and the Chautauqua brought adult education and the new scientific knowledge into every cross-roads of the country. The great, intellectually and artistically, traveled these circuits as did also America's humorists and politicians. The Chautauqua Literary and Scientific Circle was first organized in 1873, starting as a summer assembly devoted especially to Sunday-school teaching methods. But it quickly developed an elaborate curriculum of home study and readings, and its texts and study courses were soon to be found in a great many of America's middle class homes. By the end of the century, hundreds of small communities saw each summer the familiar pitched tent of their own local, or an itinerant, Chautauqua assembly, where, for a week or ten days, small town America gathered to hear concerts, listen to lectures on foreign missions, and addresses on political, literary, and scientific subjects by the celebrities of the day.

The evangelical churches continued to play a prominent role in the life of post-Civil War America. By 1870, there were more than 70,000 separate church organizations in the country, with the Methodists and Baptists leading and the Presbyterians third. Church attendance was a common middle class practice and most Americans continued to look to the clergy for guidance in intellectual, scientific, and social problems. The flame of evangelicalism was kept burning brightly. Dwight L. Moody and Ira D. Sankey were the heads of a revivalist movement which had great influence for at least two decades. During this period, too,

there appeared the Young Men's Christian Association and the Salvation Army, the first to bring evangelicalism to the young and the second into the homes of the poor. Also, the Catholic Church was growing in numbers and power; and by 1900, it could claim nine million communicants, largely among the Irish, German, and Italian immigrants.

The development of the popular newspaper was another sign of the times. In the eighties appeared Joseph Pulitzer, a Hungarian immigrant who had settled in St. Louis and who then came to New York to buy the *World*. In two years, Pulitzer made the *World* an aggressive and flamboyant journal and ran its circulation from 16,000 up to 116,000. While Pulitzer appealed to the tastes and fancies of the great masses, his news columns and editorial page were of a very high order, for he was a friend of the common people and was ready to do battle against local corruption and injustice everywhere. The successes of Pulitzer attracted William Randolph Hearst, the son of a wealthy California pioneer, who also came to New York and who in 1895 acquired and modernized the New York *Journal*. Hearst even surpassed the achievements of Pulitzer, for his circulation before long was 400,000. He filled his pages with feature writers and artists, introduced the garish Sunday supplement, and, in fact, was the founder of yellow journalism. He, too, espoused popular causes in the beginning; later, he was to become the arch-reactionary of the American press. The power of the new journalism was demonstrated when, following the destruction of the U.S.S. *Maine*, both the *World* and the *Journal* did everything they possibly could to involve the United States in a war with Spain.

Philanthropy, too, was becoming modernized. Social settlements—taking a leaf from the experiences and achievements of the English Christian Socialists—were founded in America. The most famous of these, Jane Addams' Hull House of Chicago, was opened in 1889. These established themselves in slum neighborhoods and sought to bring adult edu-

cation and decency and good taste into the tenement districts. The settlement house workers ran nurseries and diet kitchens, encouraged talent among the youth they reached, and led in the fight for new factory and public welfare codes. The same was true of the charity organization societies. Their basic philosophy still assumed that need stemmed from shiftlessness; and that all dependency required was outdoor relief. But these societies did yeoman work in the battle against the slums.

Thus there were shadows and some light; there were vulgarity and social courage; everywhere there was vitality. Particularly this was so in the realms of intellectual striving and artistic endeavor. America could boast of great innovators in the field of collegiate and university education like Daniel Coit Gilman of Johns Hopkins and Charles W. Eliot of Harvard; of seminal thinkers like Charles S. Peirce and William James in philosophy; of poets like Walt Whitman and Emily Dickinson; and of novelists like Mark Twain, Henry James, and William Dean Howells. In the field of architecture, John A. Roebling, H. H. Richardson, and Louis H. Sullivan were outstanding. The paintings of Thomas Eakins, Winslow Homer, and Albert P. Ryder are still permanently displayed in American museums. In the sciences, America contributed important innovators like Willard Gibbs in physics, Simon Newcomb in astronomy, Lewis H. Morgan in anthropology, and John William Draper in chemistry.

There were defenders of economic orthodoxy in the persons of William G. Sumner and John Bates Clark, who spoke for the laissez-faire doctrines of industrial capitalism. On the other hand, there were voices raised in dissent, of whom the greatest were Henry George and Thorstein Veblen. Other protestants were Wendell Phillips of Boston who, after the Abolitionist fight was won, became a stalwart friend of the working classes; George William Curtis of New York, who was an outstanding civil service reformer; and

Henry D. Lloyd of Chicago, whose *Wealth against Commonwealth* was the first searching examination of the processes by which monopoly was establishing itself in America.

These were wholly authentic thinkers and artists; they were innovators, too, as were the industrial capitalists. The America in which

they moved they expressed in stone and steel, poetry and novels, economic manifestoes and educational plans. The outer crust of this Gilded Age was cruel and hard and frequently vulgar; but underneath were cool springs to sustain the genius of an Emily Dickinson, an Albert Ryder, and a Louis Sullivan.

## 5. EXPANSION OVERSEAS

It was inevitable that American horizons should grow as the United States became one of the great economic powers of the world. The end of the century saw us embarking upon a series of adventures overseas; we fought a war, obtained an empire, and assumed responsibilities in distant lands.

*Cuba.* The war with Spain took place because of our growing concern over Cuba. Cuba did not suddenly burst upon our eyes in the nineties: because of its proximity it had had the attention of American Presidents and their Secretaries of State, on and off, since the beginning of the nineteenth century. And its opportunities for trade and capital investment had been appreciated by enterprising Americans and, to a small extent, been taken advantage of. American political leaders feared that Spain might lose Cuba and some mightier Power, Great Britain, for example, would take possession of the island to dominate the Caribbean. Therefore, as Americans became increasingly interested in the building of a Panama Canal, the establishment of security in this region became the key to American policy. Earlier, we had labored to maintain Spanish sovereignty; then, in the fifties, we had sought to purchase the island; and, with the outbreak of insurrection in Cuba, from 1868 to 1878, Americans began to talk of Cuban independence. But the so-called Ten Years' War failed. It did lead, however, to the exile of sizable numbers of leaders of the insurgents, who settled in the United States and who kept alive the agitation for Cuban freedom.

Another Cuban war of independence began in February, 1895. Again Spain made a determined effort to put down the insurrection, sending a great army to the island for this purpose; in time, the Spanish expeditionary force numbered 200,000 men. The Spanish troops, however, found it difficult to cope with the guerilla tactics of the insurgents. The revolutionists took to the hills and carried on a silent but deadly economic warfare against plantations, transportation centers, and collaborationists. Before long, the normal life of the island was on the verge of breakdown.

The next year Spain decided to meet terror with terror and dispatched General Valeriano Weyler to the island with orders to hunt down the guerillas. Weyler built a series of blockhouses across Cuba in the hope of corraling the insurgent forces in a gradually restricted area; he took measures to stop the rebels from living off the countryside by ordering the collection of the islanders in concentration camps. In time some 400,000 Cubans were living in such areas where, because of Spanish indifference, ignorance, and cruelty, they died in large numbers of hunger and disease.

It was this famous "reconcentration" system that excited the general indignation of Americans. The popular press took up the cause of the Cubans and brought tales of their piteous sufferings to the attention of the American people. In October, 1897, a Spanish liberal ministry came into power; it recalled Weyler; and assurances were given to the American minister at Madrid that autonomy would be

granted to Cuba as soon as order had been restored.

But all Cubans, apparently, did not seek freedom or even autonomy. The fact is, the inhabitants of Havana, the island's capital city, continued loyal to the Spanish crown. Disorders broke out as a result of encounters between autonomists and anti-autonomists; American lives and property were in danger; and at the request of our consul general an American warship was sent to Cuban waters. This was the mission of the U.S.S. *Maine*, which appeared in Havana harbor in January, 1898. It was received with every token of friendship and its officers and men were made much of. On the evening of February 15, however, America was horrified to learn that the *Maine* had been blown up, with a loss of 260 lives.

A naval court of inquiry, dispatched to the spot, submitted a report which declared that the *Maine* had been blown up by a submarine mine which, in turn, had led to the partial explosion of some of the cruiser's magazines. The court was not able to establish responsibility for the destruction of the *Maine*. In the minds of the American people, however, there were no doubts. The *Maine* had been destroyed by agents of the Spanish government; and its loss had to be redressed. On March 9, before even the court of inquiry had reported, Congress appropriated \$50,000,000 for the national defense and placed the fund in the hands of the President to be used at his discretion. "Remember the *Maine*" became a popular cry of yellow journals and politicians.

A series of misunderstandings led to the formal declaration of war. Demands were made upon the Spanish government for the establishment of an armistice on the island and the immediate revocation of the reconcentration order. About the second point there was no debate. On the first, however, Spain, fearful of losing face, hedged. It was prepared to terminate hostilities only if the insurgents asked for the armistice. A good deal of backing and filling took place, but

finally, on April 8 and 9, the American minister at Madrid was able to cable Washington that Spain had yielded on every point.

Apparently, however, it was too late; President McKinley had decided to join the war party. On April 11, he sent a message to Congress which declared that he had exhausted every means calculated to relieve the Cuban situation. He asked that he be given power to take measures to put an end to hostilities in Cuba and to use the military and naval forces of the United States if need be. This was a request for war declaration; and, on April 19, Congress complied.

*The War with Spain.* The Spanish-American War was a short and glorious one. It drove the declining Spanish power out of the Western Hemisphere; gave us an overseas empire; cemented the friendship between the United States and Britain; subjected our new navy to its baptism by fire; created a military reputation for Theodore Roosevelt; and reassured the triumph of the Republican party in the next election. The United States emerged as one of the world's great nations as a consequence.

The brief war between the United States and Spain consisted of four operations: (1) The defeat of the Spanish fleet at Manila; (2) the blockade of Cuba; (3) the tracking down of the main Spanish fleet commanded by Admiral Cervera; (4) the invasion of Puerto Rico.

The initial blow at Manila was successful because of the foresight of Assistant Secretary of the Navy Theodore Roosevelt, who ordered Commodore George Dewey, then in charge of the Asiatic Squadron, to keep in readiness for any eventuality. Five days after the war declaration, Dewey was out of Hong Kong and, on April 30, he was entering Manila Bay. The Spanish squadron was outnumbered; and it had been taken completely unawares. Within seven hours the Spanish fleet was entirely destroyed and most of the shore batteries had been silenced. American casualties consisted of seven wounded.

But Dewey was accompanied by no transports; and it was necessary that he await the arrival of military reinforcements before the city of Manila could be assaulted. As he fretted in Manila harbor, his position was made increasingly uncomfortable by the arrival of a large German squadron of five ships, which had appeared presumably to protect the interests of German nationals. The Germans were looking for trouble; but a British squadron soon appeared—to watch the Germans and to help Dewey. It was not until July that Dewey was able to breathe easier, for then the transports came. Manila was attacked—with Filipino insurgents taking part—and on August 13 it surrendered. By that time Spain had already capitulated.

It was in the West Indies theater that the American navy made its superiority felt at once. A blockade was thrown about the island of Cuba by two American squadrons, so that it was impossible for the Spaniards to send any assistance to their beleaguered armies. Meanwhile the departure from home waters of the main Spanish fleet under Admiral Cervera and its disappearance into the blue produced panic on the American eastern seaboard. Vainly the hunt for Cervera continued as Boston, New York, and Philadelphia spent sleepless nights worrying about imminent bombardment; actually, Cervera was headed for Cuba and he put into Santiago harbor on May 19. Here he was in time bottled up by Admiral Schley's Flying Squadron and Admiral Sampson's Atlantic Fleet.

Cervera's position was made impossible when an American army landed on the Cuban coast and proceeded to assault Santiago from the rear. There took place a series of engagements for the capture of the heights overlooking the city; one of these was San Juan Hill. In the fight for this hill there participated the famous First Volunteer Cavalry Regiment headed by Colonel Leonard Wood and Lieutenant Colonel Theodore Roosevelt. Roosevelt had quit the Navy Department and had recruited the so-called Rough Riders from

among the cowboys of the Southwest ranching country; Wood, who had been a surgeon in the regular army, was nominally in charge. San Juan Hill fell on the night of July 1, as did the other heights commanding Santiago.

Cervera had to quit the harbor. On July 3 he led his ships out and the Spanish fleet streaked off to the West, with Schley in hot pursuit. A running fight took place and in less than four hours the whole Spanish navy had been wiped out. Only one American sailor had been killed. On July 17, Santiago surrendered.

General Miles, in charge of the American army, now proceeded to Puerto Rico; and in two weeks the greater part of the island had been yielded up. Americans had lost in battle combat only a handful of men. Nevertheless, there were heavy casualties; these took place in home encampments where, because of lack of medical knowledge on the part of American officers and because of inadequate supply arrangements, many men died of disease and food poisoning.

*The Peace Settlement.* On July 26, Spain sued for peace; the war was over after only one hundred and thirteen days of fighting. Under the armistice terms, Spain had agreed to the surrender of her sovereignty over Cuba, the cession of Puerto Rico to the United States, and the occupation of the city, bay, and harbor of Manila by American forces. The peace treaty was to decide the disposition of the Philippines. American peace commissioners were sent to Paris in October, and they sat around unhappily waiting for Washington to make up its mind. Captain Alfred T. Mahan and his friends were sure we wanted the Philippines; Bryan and his friends were equally sure we did not; President McKinley did not know. Finally, as his official biographer has it, the President sought guidance in prayer. And then he was led to understand that the United States had a mission to perform—none other than the Christianizing of the Filipinos. (He did not know, apparently, that the Filipinos had been converted to

Catholicism by Spanish monks at least three hundred years earlier.) The American commission was ordered to demand the whole archipelago, and to pay something to Spain for her property rights in the islands. Upon these terms—for \$20,000,000—Puerto Rico, Guam, and the Philippines were ours.

Opposition to the acquisition of the Philippines was not lacking. Indeed, during the whole month of January, 1899, the Senate debated the treaty. Annexationists or "Big Americans," as they came to be called, demanded our retention of the islands for the usual imperialist reasons. (Not the least of which was the necessity for the protection of American interests in China.) On the other hand, the so-called "Little Americans" were hostile to any programs of expansion; in this company most of the Democratic Senators were to be found. Late in January, Bryan appeared in Washington to urge upon Democratic Senators that the issue was much too important to be decided by a senatorial debate. He advised his fellow party members to vote for ratification of the treaty and leave the final determination of the Philippine question to the electorate in the presidential campaign of 1900. In short, the issue of imperialism would be the ground on which McKinley's reelection would be contested. A vote was finally taken early in February and ratification won, but only by a single vote more than the required two thirds. The division was almost entirely on party lines.

*The Election of 1900.* Thus the issue for 1900 was predetermined. The Republicans renominated McKinley and named as his running mate Theodore Roosevelt who, after his return from the Cuban campaign, had been elected governor of New York. The Democrats once more chose William Jennings Bryan and nominated Adlai E. Stevenson of Illinois for the vice presidency. The Populists, disappointed over their defeat in the 1896 campaign, entered an independent ticket. There also appeared for the first time at the polls the Social Democratic party, later the Socialist

party, which nominated Eugene V. Debs for the presidency.

The issue was never in doubt, and Bryan was able to carry but four states outside of the Solid South; and all these were silver mining states of the Far West. The electoral college vote was 292 to 155; and a Republican Congress was also returned to Washington. But the rejoicings of the Republicans were brief. Early in September, President McKinley had gone to Buffalo to attend the so-called Pan American Exposition and here, on the fifth, he advocated tariff reciprocity as a means of uniting the United States with Latin American countries in greater bonds of amity. As he spoke he was shot down by a demented anarchist. Eight days later McKinley was dead and the young Roosevelt was President of the United States.

*The United States and China.* Before the decade ended, our State Department clearly outlined a Chinese policy which American Presidents and Secretaries of States were to follow without significant change for the next half century. In part, this grew out of America's newly established position in the South China Sea; in part, it was a continuation of that earlier policy which had first been outlined by Caleb Cushing in 1844; in part, it was a response to the new European imperialist pretensions in eastern Asia.

First, Japan had humiliated China in the war of 1895, obtaining the island of Formosa and the recognition of Japanese sovereignty in Korea. And then the European powers, seeing how vulnerable the Chinese were, had begun to establish footholds in the empire. In 1898, the Germans had obtained a long term lease on Kiaochow Bay; Russia had occupied Port Arthur in Manchuria; and the French and the British had obtained additional spheres of influence along the Chinese coast.

McKinley's Secretary of State, John Hay, felt that the status of American trade with China was seriously jeopardized by these activities. Therefore, on September 6, 1899, Hay sent a circular note to the American ambas-

sadors at London, Berlin, and St. Petersburg, which was, in effect, his famous so-called Open Door Note. This statement contained three propositions: (1) That the powers claiming spheres of influence in China should commit themselves to keeping the treaty ports open. (2) That the powers allow the application of the Chinese treaty tariff to the ports under their control without discrimination against other nationals. (3) That the powers would not levy higher harbor charges on vessels of other nationals calling at their ports, or fix higher railroad rates. Hay, in short, was seeking to protect the territorial integrity of China, and, at the same time, to acquire equal economic rights for American nationals in those spheres of influence which the European powers had carved out for themselves.

Great Britain quickly agreed to the American demands; and it was soon followed by Germany, France, and Russia. Japan and Italy, when approached later, also gave their assent. On March 20, 1900, Hay made a public announcement in which he expressed himself as satisfied with the results of American intervention. The guarantees of the powers, he said, were "final and definitive": that the Open Door to China would be maintained and Chinese sovereignty in the spheres of influence respected.

America was soon called upon to demonstrate its good will. A band of Chinese patriots, known as the Boxers, early in 1900 began to march on Peking and sought to overthrow the government because of its weakness in the face of foreign domination. An international force was mobilized—with American troops participating—and it proceeded to the relief of the invested Peking. Peking was entered; and the Chinese government was called upon to pay an indemnity for the damages suffered by foreign nationals at the hands of the Chinese irregulars. The American government, however, renounced its share of the indemnity and helped in the creation of an educational fund to provide scholarships for Chinese students studying in the United

States. Thus, our friendship had been tested and not found wanting.

*The United States and the Philippines.* We were not doing as well, however, in the other areas of our newly developed interest. Until 1913, our attitude toward the Filipinos was not much unlike that of the other Powers established in eastern Asia: the Philippines were ours and were to be used entirely for the benefit of the United States. Indeed, in the beginning, the basis of policy was military terrorism. American troops in Luzon had been given effective aid by Filipino insurgents during the war; but the claim of the insurgents' leaders to recognition was flouted by the American command. The result was the outbreak of hostilities between Filipinos and Americans in February, 1899. For the next three years an American army, 60,000 strong, sought to pacify the islands; and it was not until 1902 that Washington was able to announce the end of the insurrection. Meanwhile, it had cost the United States 175 millions of dollars and the lives of 4,300 men to convince the Filipinos that our intentions were pacific.

The process of establishing self-government developed slowly. In July, 1902, the American Congress passed the first organic law for the islands, under which Filipinos were given the protection of the Bill of Rights. In 1907, the Philippines Assembly was established; in 1913, the islands became a full part of the American customs union. It was under the Jones Law, passed in August, 1916, that complete legislative power was granted Filipino representatives; by this time, too, the greater part of the civil service was native. The executive authority continued, however, in the hands of the American governor general.

The Tydings-McDuffie Act (Philippine Independence Act) of 1934 redeemed the promises of self-government the Americans had been making since 1913. A Philippine Commonwealth was set up; the islands were to have their own legislative and executive offices; the American high commissioner—rep-

resenting American sovereignty—was to be an adviser and observer; and independence was to be granted after ten years of self-rule. On July 4, 1946, this pledge was honored, and the Philippine Republic was pronounced. Meanwhile, America had been helping the Filipinos prepare for self-rule by spending great sums on education, health, and public works. In a region of the world where imperialism had uniformly taken the shape of a cruel exploitation of native populations, the Filipinos were singularly well off. They had been made ready for independence in less than fifty years.

*Cuba.* American practices in Cuba left much to be desired, too. Up to 1902, an American military occupation continued in the island and, under the dictatorial rule of General Leonard Wood, the United States laid the groundwork for a stable government. Church and state were separated; extraordinary sanitation programs were inaugurated; a school system was set up; and public finances were put on a sound basis. Meanwhile, Congress had passed the so-called Platt Amendment early in 1901. This demanded that a Cuban constitutional convention, already sitting, recognize the right of the United States to intervene in Cuban affairs at its pleasure. In 1903, the amendment was written into a permanent treaty between the two countries. The most important provision of the Platt Amendment declared:

That the government of Cuba consents that the United States may exert the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property, and individual liberty, and for discharging the obligations with respect to

Cuba imposed by the Treaty of Paris on the United States, now to be assumed and undertaken by the government of Cuba.

The Platt Amendment also compelled Cuba to grant the American Navy leases of Cuban harbors for the establishment of coaling and naval stations.

In line with this policy, American forces intervened in Cuba in 1906, and again in 1912 and in 1917; this last occupation did not end until 1922. Meanwhile, American business interests were moving into the island on a large scale, investing in sugar and tobacco lands and in iron mines. In the 1920s the American capital stake in Cuba was in excess of a billion dollars. It was not until the thirties, as a result of Franklin D. Roosevelt's Good Neighbor policy, that the Platt Amendment was repealed. Cuba was now a free and sovereign state for the first time.

Thus the expansion of the United States as the nineteenth century ended. It is doubtful whether this was imperialism, European style. America continued to be a debtor nation; its new-found strength, industrially, was being used to develop its own resources rather than to exploit hapless peoples overseas. As the century turned, American foreign investments came to only 685 millions of dollars; Europeans, on the other hand, had claims of more than three billions of dollars against American properties.

We ended the century still a debtor nation. But our industrial capitalist class was now the greatest on earth. In this fashion, the Second American Revolution—in the economic sector, at any rate—had more than realized the wildest dreams of its projectors.



# THE AMERICAN MIND

## WILLIAM JAMES

JOSIAH ROYCE (1855-1916) emerged from the hardships of his pioneer California background to accept and develop a philosophy which would not have sounded at all strange in the most conservative university of Europe. His metaphysics was intellectualist, for all the stress he lay on the role of volition; and the ethics he based on that metaphysics was almost Prussian in its emphasis on social order and in its insistence that only by identification with a larger social whole could the individual realize his true and essential self. In practical application of that philosophy, Royce all but expounded the "leadership principle."

William James (1842-1910), born to comfort and exposed to the influences of a cosmopolitan education, gave form and popularity to the one distinctively American development in modern philosophy. Thus, during the middle eighties and nineties, Harvard philosophy students heard William James set forth the premises of pragmatism in one classroom while, in another, they listened to Royce discussing Hegelian idealism.

James came to his philosophy almost as the result of personal necessity, for he had relinquished painting for medicine and then had turned to the study of psychology because of a neurotic disorder out of which he brought himself by an act of will. As James went on from psychology to philosophy, from which the former was only beginning to be separated as a discipline, he began to develop the pragmatism with which his name is associated.

The pragmatic criterion of truth was not entirely novel with James. In his book on the *Religious Affections*, Jonathan Edwards had made difference in conduct the test for the validity of an individual's conversion. Charles Saunders Peirce (1839-1914), one of the semi-

nal minds in the development of American philosophy, had presented pragmatism as early as 1868. Later, he expounded his theory in more complete form in his *Illustrations of the Logic of Science*, which appeared in the *Popular Science Monthly* during 1877 and 1878. Working on mathematical foundations, Peirce argued that "natural law" was made; it did not exist in the blue awaiting discovery. Consequently, disputants on metaphysical issues should first attempt to find out whether their argument had any reason by asking, "If this were true, what actual difference would it make?"

James extended Peirce's ideas and phrased them in a fashion better adapted to win general understanding and approval. So attractive was James's language, in fact, and so well adapted to the current vernacular, that he found some of his concepts being distorted by popular acceptance, especially the core idea of his *Will to Believe*, which he would have preferred to call the "Right to Believe."

James's germinal idea—the essentially active and "interested" character of thought—had been characterizing his teaching for years, but it was not until he delivered his lecture on *Philosophical Conceptions and Practical Results* in 1898 that pragmatism received its label and began to give philosophers cause for battle. Addressing the Philosophical Union of the University of California, James showed how Peirce's criterion of "practicalism" might be used to strip philosophical argument of superfluity. "What difference in action will a given difference in idea make?" James asks. If no such difference can be found, then the argument is an exercise in futility.

James devotes most of his lecture to moral problems, however, and that, in itself, shows how much stress his philosophy put on con-

duct and on individual response to the world. He differentiates between the verbalisms of theology and "the power" which people feel within themselves when they set their attitudes in certain ways. More important, James seeks and finds moral law in the universe. He prefers the concept of "God" to that of "natural law" because the former gives permanent warrant for our highest expectations. Materialism denies that the moral order is eternal; theism affirms it, and so leaves room for hope.

If compelled to reply to John Stuart Mill's remark that that which is conformable to human desire is not necessarily true, James probably would have stressed his pragmatic criterion. The truth of a hypothesis is to be tested by its consequences in action. To intellectuals particularly, the materialist or even the agnostic hypothesis generally means depression and inability to act. Hence, James asserted the right to believe and refused to confine belief within the bounds of the evidence available, for even the suspension of judgment might hinder or inhibit the action which was life.

In this fashion, James made philosophy live for the general public. He refused to close his mind to any source of information, even the dubious information to be won from psychical research. He described the "Varieties of Religious Experience" (in his book of that name) with a care untainted by the crudities of "rationalism." He appreciated the emotional aspects of human activity so intensely that he sought a "Moral Equivalent for War"; he was too good a psychologist to attempt to replace something exciting by short cuts and subterfuges. Let youth learn the realities of life by serving an apprenticeship to the hard and disagreeable work of the world, James suggested. In that way, those shielded by money would find out upon what their easy lives depended, and human sympathy would broaden to replace the present acquisitive society with something more honorable and generous.

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## *Philosophical Conceptions and Practical Results*

BY WILLIAM JAMES

... I WILL SEEK to define with you merely what seems to be the most likely direction in which to start upon the trail of truth. Years ago this direction was given to me by an American philosopher whose home is in the East, and whose published works, few as they are and scattered in periodicals, are no fit expression of his powers. I refer to Mr. Charles S. Peirce, with whose very experience as a philosopher I dare say many of you are unacquainted. He is one of the most original of contemporary thinkers; and the principle of practicalism—or pragmatism, as he called it, when I first heard him enunciate it at Cambridge in the early '70's—is the clue or compass by following which I find myself more and more confirmed in believing we may keep our feet upon the proper trail.

Peirce's principle, as we may call it, may be expressed in a variety of ways, all of them very simple. In the *Popular Science Monthly* for January, 1878, he introduces it as follows: The soul and meaning of thought, he says, can never be

made to direct itself towards anything but the production of belief, belief being the demicadence which closes a musical phrase in the symphony of our intellectual life. Thought in movement has thus for its only possible motive the attainment of thought at rest. But when our thought about an object has found its rest in belief, then our action on the subject can firmly and safely begin. Beliefs, in short, are really rules for action; and the whole function of thinking is but one step in the production of habits of action. If there were any part of a thought that made no difference in the thought's practical consequences, then that part would be no proper element of the thought's significance. Thus the same thought may be clad in different words; but if the different words suggest no different conduct, they are mere outer accretions, and have no part in the thought's meaning. If, however, they determine conduct differently, they are essential elements of the significance. "Please open the door," and, "*Veillez*

*ouvrir la porte*," in French, mean just the same thing; but "D—n you, open the door," although in English, *means* something very different. Thus to develop a thought's meaning we need only determine what conduct it is fitted to produce; that conduct is for us its sole significance. And the tangible fact at the root of all our thought-distinctions, however subtle, is that there is no one of them so fine as to consist in anything but a possible difference of practice. To attain perfect clearness in our thoughts of an object, then, we need only consider what effects of a conceivably practical kind the object may involve—what sensations we are to expect from it, and what reactions we must prepare. Our conception of these effects, then, is for us the whole of our conception of the object, so far as that conception has positive significance at all.

This is the principle of Peirce, the principle of pragmatism. I think myself that it should be expressed more broadly than Mr. Peirce expresses it. The ultimate test for us of what a truth means is indeed the conduct it dictates or inspires. But it inspires that conduct because it first foretells some particular turn to our experience which shall call for just that conduct from us. And I should prefer for our purposes this evening to express Peirce's principle by saying that the effective meaning of any philosophic proposition can always be brought down to some particular consequence, in our future practical experience; whether active or passive; the point lying rather in the fact that the experience must be particular, than in the fact that it must be active.

To take in the importance of this principle, one must get accustomed to applying it to concrete cases. . . .

One of its first consequences is this. Suppose there are two different philosophical definitions, or propositions, or maxims, or what not, which seem to contradict each other, and about which men dispute. If, by supposing the truth of the one, you can foresee no conceivable practical consequence to anybody at any time or place, which is different from what you would foresee if you supposed the truth of the other, why then the difference between the two propositions is no difference,—it is only a specious and verbal difference, unworthy of further contention. Both formulas mean radically the same thing, although they may say it in such different words. It is astonishing to see how many philosophical disputes collapse into insignificance the moment you subject them to this simple test. There can be no difference which doesn't make a difference—no difference in abstract truth which does not ex-

press itself in a difference of concrete fact, and of conduct consequent upon the fact, imposed on somebody, somehow, somewhere, and some-when. . . .

If we start off with an impossible case, we shall perhaps all the more clearly see the use and scope of our principle. Let us, therefore, put ourselves, in imagination, in a position from which no forecasts of consequence, no dictates of conduct, can possibly be made, so that the principle of pragmatism finds no field of application. Let us, I mean, assume that the present moment is the absolutely last moment of the world, with bare nonentity beyond it, and no hereafter for either experience or conduct.

Now I say that in that case there would be no sense whatever in some of our most urgent and envenomed philosophical and religious debates. The question, "Is matter the producer of all things, or is a God there too?" would, for example, offer a perfectly idle and insignificant alternative if the world were finished and no more of it to come. Many of us, most of us, I think, now feel as if a terrible coldness and deadness would come over the world were we forced to believe that no informing spirit or purpose had to do with it, but it merely accidentally had come. The actually experienced details of fact might be the same on either hypothesis, some sad, some joyous; some rational, some odd and grotesque; but without a God behind them, we think they would have something ghastly, they would tell no genuine story, there would be no speculation in those eyes that they do glare with. With the God, on the other hand, they would grow solid, warm, and altogether full of real significance.

But I say that such an alternation of feelings, reasonable enough in a consciousness that is prospective, as ours now is, and whose world is partly yet to come, would be absolutely senseless and irrational in a purely retrospective consciousness summing up a world already past. For such a consciousness, no emotional interest could attach to the alternative. The problem would be purely intellectual; and if unaided matter could, with any scientific plausibility, be shown to cipher out the actual facts, then not the faintest shadow ought to cloud the mind, of regret for the God that by the same ciphering would prove needless and disappear from our belief.

For just consider the case sincerely, and say what would be the *worth* of such a God if he *were* there, with his work accomplished and his world run down. He would be worth no more than just that world was worth. To that amount of result, with its mixed merits and defects, his

creative power could attain, but go no farther. And since there is to be no future; since the whole value and meaning of the world has been already paid in and actualized in the feelings that went with it in the passing, and now go with it in the ending; since it draws no supplemental significance (such as our real world draws) from its function of preparing something yet to come; why then, by it we take God's measure, as it were. He is the Being who could once for all do *that*; and for that much we are thankful to him, but for nothing more. But now, on the contrary hypothesis, namely, that the bits of matter following their "laws" could make that world and do no less, should we not be just as thankful to them? Wherein should we suffer loss, then, if we dropped God as an hypothesis and made the matter alone responsible? Where would the special deadness, "crassness," and ghastliness come in? And how, experience being what it is once for all, would God's presence in it make it any more "living," any richer in our sight? . . .

Thus if no future detail of experience or conduct is to be deduced from our hypothesis, the debate between materialism and theism becomes quite idle and insignificant. Matter and God in that event mean exactly the same thing—the power, namely, neither more nor less, that can make just this mixed, imperfect, yet completed world—and the wise man is he who in such a case would turn his back on such a supererogatory discussion. Accordingly most men instinctively—and a large class of men, the so-called positivists or scientists, deliberately—do turn their backs on philosophical disputes from which nothing in the line of definite future consequences can be seen to follow. The verbal and empty character of our studies is surely a reproach with which you of the Philosophical Union are but too sadly familiar. An escaped Berkeley student said to me at Harvard the other day—he had never been in the philosophical department here—"Words, words, words, are all that you philosophers care for." We philosophers think it all unjust; and yet, if the principle of pragmatism be true, it is a perfectly sound reproach unless the metaphysical alternatives under investigation can be shown to have alternative practical outcomes, however delicate and distant these may be. The common man and the scientist can discover no such outcomes. And if the metaphysician can discern none either, the common man and scientist certainly are in the right of it, as against him. His science is then but pompous trifling; and the endowment of a professorship for such a being would be something really absurd.

Accordingly, in every genuine metaphysical debate some practical issue, however remote, is really involved. To realize this, revert with me to the question of materialism or theism; and place yourselves this time in the real world we live in, the world that has a future, that is yet uncompleted whilst we speak. In this unfinished world the alternative of "materialism or theism?" is intensely practical; and it is worth while for us to spend some minutes of our hour in seeing how truly this is the case. . . .

Theism and materialism, so indifferent when taken retrospectively, point when we take them prospectively to wholly different practical consequences, to opposite outlooks of experience. For, according to the theory of mechanical evolution, the laws of redistribution of matter and motion, though they are certainly to thank for all the good hours which our organisms have ever yielded us and for all the ideas which our minds now frame, are yet fatally certain to undo their work again, and to redissolve everything that they have once evolved. You all know the picture of the last foreseeable state of the dead universe, as evolutionary science gives it forth. I cannot state it better than in Mr. Balfour's words: "The energies of our system will decay, the glory of the sun will be dimmed, and the earth, tideless and inert, will no longer tolerate the race which has for a moment disturbed its solitude. Man will go down into the pit, and all his thoughts will perish. The uneasy consciousness which in this obscure corner has for a brief space broken the contented silence of the universe, will be at rest. Matter will know itself no longer. 'Imperishable monuments' and 'immortal deeds,' death itself, and love stronger than death, will be as if they had not been. Nor will anything that is, be better or worse for all that the labor, genius, devotion, and suffering of man have striven through countless ages to effect."

That is the sting of it, that in the vast driftings of the cosmic weather, though many a jewelled shore appears, and many an enchanted cloud-bank floats away, long lingering ere it be dissolved—even as our world now lingers, for our joy—yet when these transient products are gone, nothing, absolutely *nothing* remains, to represent those particular qualities, those elements of preciousness which they may have enshrined. Dead and gone are they, gone utterly from the very sphere and room of being. Without an echo; without a memory; without an influence on aught that may come after, to make it care for similar ideals. This utter final wreck and tragedy is of the essence of scientific materialism as at present understood. The lower and not the higher forces are the

eternal forces, or the last surviving forces within the only cycle of evolution which we can definitely see. Mr. Spencer believes this as much as anyone; so why should he argue with us as if we were making silly æsthetic objections to the "grossness" of "matter and motion,"—the principles of his philosophy,—when what really dismays us in it is the disconsolateness of its ulterior practical results?

No, the true objection to materialism is not positive but negative. It would be farcical at this day to make complaint of it for what it *is*, for "grossness." Grossness is what grossness *does*—we now know *that*. We make complaint of it, on the contrary, for what it is *not*—not a permanent warrant for our more ideal interests, not a filler of our remotest hopes.

The notion of God, on the other hand, however inferior it may be in clearness to those mathematical notions so current in mechanical philosophy, has at least this practical superiority over them, that it guarantees an ideal order that shall be permanently preserved. A world with a God in it to say the last word, may indeed burn up or freeze, but we then think of Him as still mindful of the old ideals and sure to bring them elsewhere to fruition; so that, where He is, tragedy is only provisional and partial, and shipwreck and dissolution not the absolutely final things. This need of an eternal moral order is one of the deepest needs of our breast. And those poets, like Dante and Wordsworth, who live on the conviction of such an order, owe to that fact the extraordinary tonic and consoling power of their verse. Here then, in these different emotional and practical appeals, in these adjustments of our concrete attitudes of hope and expectation, and all the delicate consequences which their differences entail, lie the real meanings of materialism and theism—not in hairsplitting abstractions about matter's inner essence, or about the metaphysical attributes of God. Materialism means simply the denial that the moral order is eternal, and the cutting off of ultimate hopes; theism means the affirmation of an eternal moral order and the letting loose of hope. Surely here is an issue genuine enough, for anyone who feels it; and, as long as men are men, it will yield matter for serious philosophic debate. Concerning this question, at any rate, the positivists and pooh-pooh-ers of metaphysics are in the wrong. . . .

Now if we look at the definitions of God made by dogmatic theology, we see immediately that some stand and some fall when treated by this test. God, for example, as any orthodox text-book will tell us, is a being existing not only *per se*,

or by himself, as created beings exist, but *a se*, or from himself; and out of this "aseity" flow most of his perfections. He is, for example, necessary; absolute; infinite in all respects; and single. He is simple, not compounded of essence and existence, substance and accident, actuality and potentiality, or subject and attributes, as are other things. He belongs to no genus; he is inwardly and outwardly unalterable; he knows and wills all things, and first of all his own infinite self, in one indivisible eternal act. And he is absolutely self-sufficing and infinitely happy.—Now in which one of us practical Americans here assembled does this conglomeration of attributes awaken any sense of reality? And if in no one, then why not? Surely because such attributes awaken no responsive active feelings and call for no particular conduct of our own. How does God's "aseity" come home to *you*? What specific thing can I do to adapt myself to his "simplicity"? Or how determine our behavior henceforth if his "felicity" is anyhow absolutely complete? . . . The attributes which I have quoted have absolutely nothing to do with religion, for religion is a living practical affair. Other parts, indeed, of God's traditional description do have practical connection with life, and have owed all their historic importance to that fact. His omniscience, for example, and his justice. With the one he sees us in the dark, with the other he rewards and punishes what he sees. So do his ubiquity and eternity and unalterability appeal to our confidence, and his goodness banish our fears. Even attributes of less meaning to this present audience have in past times so appealed. One of the chief attributes of God, according to the orthodox theology, is his infinite love of himself, proved by asking the question, "By what but an infinite object can an infinite affection be appeased?" An immediate consequence of this primary self-love of God is the orthodox dogma that the manifestation of his own glory is God's primal purpose in creation; and that dogma has certainly made very efficient practical connection with life. It is true that we ourselves are tending to outgrow this old monarchical conception of a Deity with his "court" and pomp—"his state is kingly, thousands at his bidding speed," etc.—but there is no denying the enormous influence it has had over ecclesiastical history, nor, by repercussion, over the history of European states. And yet even these more real and significant attributes have the trail of the serpent over them as the books on theology have actually worked them out. One feels that, in the theologians' hands, they are only a set of dictionary-adjectives, mechanically deduced; logic has stepped into the place of vision, professional-

ism into that of life. Instead of bread we get a stone; instead of a fish, a serpent. Did such a conglomeration of abstract general terms give really the gist of our knowledge of the Deity, divinity-schools might indeed continue to flourish, but religion, vital religion, would have taken its flight from this world. What keeps religion going is something else than abstract definitions and systems of logically concatenated adjectives, and something different from faculties of theology and their professors. All these things are after-effects, secondary accretions upon a mass of concrete religious experiences, connecting themselves with feeling and conduct that renew themselves *in sæcula sæculorum* in the lives of humble private men. If you ask what these experiences are, they are conversations with the unseen, voices and visions, responses to prayer, changes of heart, deliverances from fear, inflowings of help, assurances of support, whenever certain persons set their own internal attitude in certain appropriate ways. The power comes and goes and is lost, and can be found only in a certain definite direction, just as if it were a concrete material thing. These direct experiences of a wider spiritual life with which our superficial consciousness is continuous, and with which it keeps up an intense commerce, form the primary mass of direct religious experience on which all hearsay religion rests, and which furnishes that notion of an ever-present God, out of which systematic theology thereupon proceeds to make capital in its own unreal pedantic way. What the word "God" means is just those passive and active experiences of your life. . . .

I can best continue to recommend the principle of practicalism to you by keeping in the neighborhood of this theological idea. I reminded you a few minutes ago that the old monarchical notion of the Deity as a sort of Louis the Fourteenth of the Heavens is losing nowadays much of its ancient prestige. Religious philosophy, like all philosophy, is growing more and more idealistic. And in the philosophy of the Absolute, so called, that post-Kantian form of idealism which is carrying so many of our higher minds before it, we have the triumph of what in old times was summarily disposed of as the pantheistic heresy,—I mean the conception of God, not as the extraneous creator, but as the indwelling spirit and substance of the world. I know not where one can find a more candid, more clear, or, on the whole, more persuasive statement of this theology of Absolute Idealism than in the addresses made before this very Union three years ago by your own great Californian philosopher (whose colleague at Harvard I am proud to be), Josiah Royce. His contri-

butions to the resulting volume, *The Conception of God*, form a very masterpiece of popularization. Now you will remember, many of you, that in the discussion that followed Professor Royce's first address, the debate turned largely on the ideas of unity and plurality, and on the question whether, if God be One in All and All in All, "One with the unity of a single instant," as Royce calls it, "forming in His wholeness one luminously transparent moment," any room is left for real morality or freedom. . . .

The question whether the world is at bottom One or Many is a typical metaphysical question. Long has it raged! In its crudest form it is an exquisite example of the *loggerheads* of metaphysics. "I say it is one great fact," Parmenides and Spinoza exclaim. "I say it is many little facts," reply the atomists and associationists. "I say it is both one and many, many in one," say the Hegelians; and in the ordinary popular discussions we rarely get beyond this barren reiteration by the disputants of their pet adjectives of number. But is it not first of all clear that when we take such an adjective as "One" absolutely and abstractly, its meaning is so vague and empty that it makes no difference whether we affirm or deny it? Certainly this universe is not the mere number One; and yet you can number it "one," if you like, in talking about it as contrasted with other possible worlds numbered "two" and "three" for the occasion. What exact thing do you *practically* mean by "One," when you call the universe One, is the first question you must ask. In what ways does the oneness come home to your own personal life? By what difference does it express itself in your experience? How can you act differently towards a universe which is one? Inquired into in this way, the unity might grow clear and be affirmed in some ways and denied in others, and so cleared up, even though a certain vague and worshipful portentousness might disappear from the notion of it in the process.

For instance, one practical result that follows when we have one thing to handle, is that we can pass from one part of it to another without letting go of the thing. In this sense oneness must be partly denied and partly affirmed of our universe. Physically we can pass continuously in various manners from one part of it to another part. But logically and psychically the passage seems less easy, for there is no obvious transition from one mind to another, or from minds to physical things. You have to step off and get on again; so that in these ways the world is not one, as measured by that practical test.

Another practical meaning of oneness is sus-

ceptibility of collection. A collection is one, though the things that compose it be many. Now, can we practically "collect" the universe? Physically, of course we cannot. And mentally we cannot, if we take it concretely in its details. But if we take it summarily and abstractly, then we collect it mentally whenever we refer to it, even as I do now when I fling the term "universe" at it, and so seem to leave a mental ring around it. It is plain, however, that such abstract noetic unity (as one might call it) is practically an extremely insignificant thing.

Again, oneness may mean generic sameness, so that you can treat all parts of the collection by one rule and get the same results. It is evident that in this sense the oneness of our world is incomplete, for in spite of much generic sameness in its elements and items, they still remain of many irreducible kinds. You can't pass by mere logic all over the field of it.

Its elements have, however, an affinity or commensurability with each other, are not wholly irrelevant, but can be compared, and fit together after certain fashions. This again might practically mean that they were one *in origin*, and that, tracing them backwards, we should find them arising in a single primal causal fact. Such unity of origin would have definite practical consequences, would have them for our scientific life at least.

I can give only these hasty superficial indications of what I mean when I say that it tends to clear up the quarrel between monism and pluralism to subject the notion of unity to such practical tests. On the other hand, it does but perpetuate strife and misunderstanding to continue talking of it in an absolute and mystical way. I have little doubt myself that this old quarrel might be completely smoothed out to the satisfaction of all claimants, if only the maxim of Peirce were methodically followed here. The current monism on the whole still keeps talking in too abstract a way. It says the world must be either pure disconnectedness, no universe at all, or absolute unity. It insists that there is no stopping-place half way. Any connection whatever, says this monism, is only possible if there be still more connection, until at last we are driven to admit the absolutely total connection required. But this absolutely total connection either means nothing, is the mere word "one" spelt long; or else it means the sum of all the partial connections that can possibly be conceived. I believe that when we thus attack the question, and set ourselves to search for these possible connections, and conceive each in a definite practical way, the dispute is already in a fair way to be settled beyond the chance of misunder-

standing, by a compromise in which the Many and the One both get their lawful rights.

But I am in danger of becoming technical; so I must stop right here, and let you go.

I am happy to say that it is the English-speaking philosophers who first introduced the custom of interpreting the meaning of conceptions by asking what difference they make for life. Mr. Peirce has only expressed in the form of an explicit maxim what their sense for reality led them all instinctively to do. The great English way of investigating a conception is to ask yourself right off, "What is it *known as*? In what facts does it result? What is its *cash-value*, in terms of particular experience? and what special difference would come into the world according as it were true or false?" Thus does Locke treat the conception of personal identity. What you mean by it is just your chain of memories, says he. That is the only concretely verifiable part of its significance. All further ideas about it, such as the oneness or manyness of the spiritual substance on which it is based, are therefore void of intelligible meaning; and propositions touching such ideas may be indifferently affirmed or denied. So Berkeley with his "matter." The cash-value of matter is our physical sensations. That is what it is known as, all that we concretely verify of its conception. That therefore is the whole meaning of the word "matter"—any other pretended meaning is mere wind of words. Hume does the same thing with causation. It is known as habitual antecedence, and tendency on our part to look for something definite to come. Apart from this practical meaning it has no significance whatever, and books about it may be committed to the flames, says Hume. Steward and Brown, James Mill, John Mill, and Bain, have followed more or less consistently the same method; and Shadworth Hodgson has used it almost as explicitly as Mr. Peirce. These writers have many of them no doubt been too sweeping in their negations; Hume, in particular, and James Mill, and Bain. But when all is said and done, it was they, not Kant, who introduced "the critical method" into philosophy, the one method fitted to make philosophy a study worthy of serious men. For what seriousness can possibly remain in debating philosophic propositions that will never make an appreciable difference to us in action? And what matters it, when all propositions are practically meaningless, which of them be called true or false?

The shortcomings and the negations and baldnesses of the English philosophers in question



come, not from their eye to merely practical results, but solely from their failure to track the practical results completely enough to see how far they extend. Hume can be corrected and built out, and his beliefs enriched, by using Humian principles exclusively, and without making any use of the circuitous and ponderous artificialities of Kant. It is indeed a somewhat pathetic matter, as it seems to me, that this is not the course which the actual history of philosophy has followed. Hume had not English successors of adequate ability to complete him and correct his negations; so it happened, as a matter of fact, that the building out of critical philosophy has mainly been left to thinkers who were under the influence of Kant. Even in England and this country it is with Kantian catch-words and categories that the fuller view of life is pursued, and in our universities it is the courses in transcendentalism that kindle the enthusiasm of the more ardent students, whilst the courses in English philosophy are committed to a secondary place. I cannot think that this is exactly as it should be. And I say this not out of national jingoism, for jingoism has no place in philosophy; or out of excitement over the great Anglo-American alliance against the world, of which we nowadays hear so much—though heavens knows that to that alliance I wish a God-speed. I say it because I sincerely believe that the English spirit in philosophy is intellectually, as well as practically and morally, on the saner, sounder, and truer

path. Kant's mind is the rarest and most intricate of all possible antique bric-a-brac museums, and connoisseurs and dilettanti will always wish to visit it and see the wondrous and racy contents. The temper of the dear old man about his work is perfectly delectable. And yet he is really—although I shrink with some terror from saying such a thing before some of you here present—at bottom a mere curio, a "specimen." I mean by this a perfectly definite thing: I believe that Kant bequeathes to us not one single conception which is both indispensable to philosophy and which philosophy either did not possess before him, or was not destined inevitably to acquire after him through the growth of men's reflection upon the hypothesis by which science interprets nature. The true line of philosophic progress lies, in short, it seems to me, not so much *through* Kant as *round* him to the point where now we stand. Philosophy can perfectly well outflank him, and build herself up into adequate fulness by prolonging more directly the older English lines.

May I hope, as I now conclude, and release your attention from the strain to which you have so kindly put it on my behalf, that on this wonderful Pacific Coast, of which our race is taking possession, the principle of practicalism, in which I have tried so hard to interest you, and with it the whole English tradition in philosophy, will come to its rights, and in your hands help the rest of us in our struggle towards the light.

## ANDREW CARNEGIE

IN THE CAREER AND OPINIONS of Andrew Carnegie (1835-1919)—barring certain heresies on protection—William Graham Sumner might have seen his social philosophy justified in action. A boy, born poor and beginning at the bottom of the industrial ladder, takes advantage of material resources and social freedom to make a fortune for himself while he improves industrial processes and raises the standards of living of society generally. In a climate of freedom, social welfare is achieved. The beneficiary of the free enterprise system is conscious of the bases for his success; and he is so grateful for the opportunity which social freedom has given him that he devotes part of his wealth not to the futilities of eleemosynary giving but to increasing the chances for other

young men to follow his example. That was how Carnegie read the lesson of the American promise.

Andrew Carnegie was an outstanding example of the opportunities and achievements of industrial capitalism. He made steel cheaply, paid his workers well, and left his fortune for social purposes. In addition to being a successful captain of industry, he was also a notably articulate one. His *Triumphant Democracy* (1886) is a paean in praise of American institutions. The republic had weathered every threatened danger as well as a destructive civil war; now it stood at a pinnacle of success; its farms, factories, and mines were outproducing those of monarchical Europe, and its culture was keeping pace with its material advance.



In lectures, addresses, and magazine articles, Carnegie continued that tribute to America through the next three decades. Any young man could win wealth if he were sufficiently able, temperate, and enterprising. Once he had won that wealth, he was obligated to use it well, however, not endowing his sons with fortunes that would ruin them, but increasing the welfare of his country. He therefore argued for the abolition of inheritance.

So far as the country itself was concerned, it would be best served by men minding their own business. In time of crisis, the United States would find leaders, as it had found them during the Civil War. In time of peace, men could concern themselves with affairs more significant than the routine of political administration, for America had settled all her real problems: she was a free republic where church had been separated from state and education was free to all. As for the doubts of the

present, those were, on the whole, utterly unjustified. Consolidation in industry did not mean high prices or the narrowing of opportunity: low costs would bring low prices and corporations would seek ability and reward it with profit as in the past. The world was swinging into an era of peaceful industrial advance.

Carnegie was oversanguine, of course: there were problems that needed governmental intervention. And all industrialists—particularly in this early and fair day of America's great technical accomplishments—were not as socially conscious as he. His confidence in America is the point, however: the optimism and equalitarianism that had been there from the very beginning were going to keep America great.

The selection reprinted here is from an address delivered at Union College in January, 1895.

### *Wealth and Its Uses*

BY ANDREW CARNEGIE

. . . Now, WHAT is wealth? How is it created and distributed? There are not far from us immense beds of coal which have lain for millions of years useless, and therefore valueless. Through some experiment, or perhaps accident, it was discovered that black stone would burn and give forth heat. Men sank shafts, erected machinery, mined and brought forth coal, and sold it to the community. It displaced the use of wood as fuel, say at one-half the cost. Immediately every bed of coal became valuable because useful, or capable of being made so; and here a new article worth hundreds, yes, thousands of millions was added to the wealth of the community. A Scotch mechanic one day, as the story goes, gazing into the fire upon which water was boiling in a kettle, saw the steam raise the lid, as hundreds of thousands had seen before him; but none saw in that sight what he did—the steam engine, which does the work of the world at a cost so infinitely trifling compared with what the plans known before involved, that the wealth of the world has been increased one dare not estimate how much. The saving that the community makes is the root of wealth in any branch of material development. Now, a young man's labour or service to the community creates wealth

just in proportion as his service is useful to the community, as it either saves or improves upon existing methods. Commodore Vanderbilt saw, I think, thirteen different short railway lines between New York and Buffalo, involving thirteen different managements, and a disjointed and tedious service. Albany, Schenectady, Utica, Syracuse, Auburn, Rochester, etc., were heads of some of these companies. He consolidated them all, making one direct line, over which your Empire State Express flies fifty-one miles an hour, the fastest time in the world; and a hundred passengers patronize the lines where one did in olden days. He rendered the community a special service, which, being followed by others, reduces the cost of bringing food from the prairies of the West to your doors to a trifling sum per ton. He produced, and is every day producing, untold wealth to the community by so doing, and the profit he reaped for himself was but a drop in the bucket compared with that which he showered upon the State and the nation.

Now, in the olden days, before steam, electricity, or any other of the modern inventions which unitedly have changed the whole aspect of the world, everything was done upon a small scale.

There was no room for great ideas to operate upon a large scale, and thus to produce great wealth to the inventor, discoverer, originator, or executive. New inventions gave this opportunity, and many large fortunes were made by individuals. But in our day we are rapidly passing, if we have not already passed, this stage of development, and few large fortunes can now be made in any part of the world, except from one cause, the rise in the value of real estate. Manufacturing, transportation both upon the land and upon the sea, banking, insurance, have all passed into the hands of corporations composed of hundreds and in many cases thousands of shareholders. The New York Central Railroad is owned by more than ten thousand shareholders, the Pennsylvania Railroad is owned by more people than the vast army which it employs, and nearly one-fourth of the number are the estates of women and children. It is so with the great manufacturing companies; so with the great steamship lines; it is so, as you know, with banks, insurance companies, and indeed with all branches of business. It is a great mistake for young men to say to themselves, "Oh! we cannot enter into business." If any of you have saved as much as \$50 or \$100, I do not know any branch of business into which you cannot plunge at once. You can get your certificate of stock and attend the meeting of stockholders, make your speeches and suggestions, quarrel with the president, and instruct the management of the affairs of the company, and have all the rights and influence of an owner. You can buy shares in anything, from newspapers to tenement-houses; but capital is so poorly paid in these days that I advise you to exercise much circumspection before you invest. As I have said to workingmen and to ministers, college professors, artists, musicians, and physicians, and all the professional classes: Do not invest in any business concerns whatever; the risks of business are not for such as you. Buy a home for yourself first; and if you have any surplus, buy another lot or another house, or take a mortgage upon one, or upon a railway, and let it be a first mortgage, and be satisfied with moderate interest. Do you know that out of every hundred that attempt business upon their own account statistics are said to show that ninety-five sooner or later fail? I know that from my own experience. I can quote the lines of Hudibras and tell you, as far as one manufacturing branch is concerned, that what he found to be true is still true to an eminent degree to-day:

"Ay me! What perils do environ  
The man that meddles with cold iron."

The shareholders of iron and steel concerns to-day can certify that this is so, whether the iron or steel be hot or cold; and such is also the case in other branches of business.

The principal complaint against our industrial conditions of to-day is that they cause great wealth to flow into the hands of the few. Well, of the very few, indeed, is this true. It was formerly so, as I have explained, immediately after the new inventions had changed the conditions of the world. To-day it is not true. Wealth is being more and more distributed among the many. The amount of the combined profits of labour and capital which goes to labour was never so great as to-day, the amount going to capital never so small. While the earnings of capital have fallen more than one-half, in many cases have been entirely obliterated, statistics prove that the earnings of labour were never so high as they were previous to the recent unprecedented depression in business, while the cost of living,—the necessities of life,—have fallen in some cases nearly one-half. Great Britain has an income tax, and our country is to be subject to this imposition for a time. The British returns show that during the eleven years from 1876 to 1887 the number of men receiving from \$750 to \$2,500 per year, increased more than 21 per cent., while the number receiving from \$5,000 to \$25,000 actually decreased 2½ per cent.

You may be sure, gentlemen, that the question of the distribution of wealth is settling itself rapidly under present conditions, and settling itself in the right direction. The few rich are getting poorer, and the toiling masses are getting richer. Nevertheless, a few exceptional men may yet make fortunes, but these will be more moderate than in the past. This may not be quite as fortunate for the masses of the people as is now believed, because great accumulations of wealth in the hands of one enterprising man who still toils on are sometimes most productive of all the forms of wealth. Take the richest man the world ever saw, who died in New York some years ago. What was found in his case? That, with the exception of a small percentage used for daily expenses, his entire fortune and all its surplus earnings were invested in enterprises which developed the railway system of our country, which gives to the people the cheapest transportation known. Whether the millionaire wishes it or not, he cannot evade the law which under present conditions compels him to use his millions for the good of the people. All that he gets during the few years of his life is that he may live in a finer house, surround himself with finer furniture, and works of art which may be added: he could even have a grander library,

more of the gods around him; but, as far as I have known millionnaires, the library is the least used part of what he would probably consider "furniture" in all his mansion. He can eat richer food and drink richer wines, which only hurt him. But truly the modern millionaire is generally a man of very simple tastes and even miserly habits. He spends little upon himself, and is the toiling bee laying up the honey in the industrial hive, which all the inmates of that hive, the community in general, will certainly enjoy. . . .

The bees of a hive do not destroy the honey-making bees, but the drones. It will be a great mistake for the community to shoot the millionnaires, for they are the bees that make the most honey, and contribute most to the hive even after they have gorged themselves full. Here is a remarkable fact, that the masses of the people in any country are prosperous and comfortable just in proportion as there are millionnaires. Take Russia, with its population little better than serfs, and living at the point of starvation upon the meanest possible fare, such fare as none of our people could or would eat, and you do not find one millionaire in Russia, always excepting the Emperor and a few nobles who own the land, owing to their political system. It is the same, to a great extent, in Germany. There are only two millionnaires known to me in the whole German Empire. In France, where the people are better off than in Germany, you cannot count one half-dozen millionnaires in the whole country. In the old home of our race, in Britain, which is the richest country in all Europe—the richest country in the world save one, our own—there are more millionnaires than in the whole of the rest of Europe, and its people are better off than in any other. You come to our own land: we have more millionnaires than in all the rest of the world put together, although we have not one to every ten that is reputed so. I have seen a list of supposed millionnaires prepared by a well-known lawyer of Brooklyn, which made me laugh, as it has made many others. I saw men rated there as millionnaires who could not pay their debts. Many should have had a cipher cut from their \$1,000,000. . . .

The inventions of to-day lead to concentrating industrial and commercial affairs into huge concerns. You cannot work the Bessemer process successfully without employing thousands of men upon one spot. You could not make the armour for ships without first expending seven millions of dollars, as the Bethlehem Company has spent. You cannot make a yard of cotton goods in competition with the world without having an immense factory and thousands of men and

women aiding in the process. The great electric establishment here in your town succeeds because it has spent millions, and is prepared to do its work upon a great scale. Under such conditions it is impossible but that wealth will flow into the hands of a few men in prosperous times beyond their needs. But out of fifty great fortunes which Mr. Blaine had a list made of he found only one man who was reputed to have made a large fortune in manufacturing. These are made from real estate more than from all other causes combined; next follows transportation, banking. The whole manufacturing world furnished but one millionnaire.

But assuming that surplus wealth flows into the hands of a few men, what is their duty? How is the struggle for dollars to be lifted from the sordid atmosphere surrounding business and made a noble career? Now, wealth has hitherto been distributed in three ways: The first and chief one is by willing it at death to the family. Now, beyond bequeathing to those dependent upon one the revenue needful for modest and independent living, is such a use of wealth either right or wise? I ask you to think over the result, as a rule, of millions given over to young men and women, the sons and daughters of the millionaire. You will find that, as a rule, it is not good for the daughters; and this is seen in the character and conduct of the men who marry them. . . . Nothing is truer than this, that as a rule the "almighty dollar" bequeathed to sons or daughters by millions proves an almighty curse. It is not the good of the child which the millionaire parent considers when he makes these bequests, it is his own vanity; it is not affection for the child, it is self-glorification for the parent which is at the root of this injurious disposition of wealth. There is only one thing to be said for this mode, it furnishes one of the most efficacious means of rapid distribution of wealth ever known.

There is a second use of wealth, less common than the first, which is not so injurious to the community, but which should bring no credit to the testator. Money is left by millionnaires to public institutions when they must relax their grasp upon it. There is no grace, and can be no blessing, in giving what cannot be withheld. It is no gift, because it is not cheerfully given, but only granted at the stern summons of death. The miscarriage of these bequests, the litigation connected with them, and the manner in which they are frittered away seem to prove that the Fates do not regard them with a kindly eye. We are never without a lesson that the only mode of producing lasting good by giving large sums of money is for

the millionaire to give as close attention to its distribution during his life as he did to its acquisition. . . .

The third use, and the only noble use of surplus wealth, is this: That it be regarded as a sacred trust, to be administered by its possessor, into whose hands it flows, for the highest good of the people. Man does not live by bread alone, and five or ten cents a day more revenue scattered over thousands would produce little or no good. Accumulated into a great fund and expended as Mr. Cooper expended it for the Cooper Institute, it establishes something that will last for generations. It will educate the brain, the spiritual part of man. It furnishes a ladder upon which the aspiring poor may climb; and there is no use whatever, gentlemen, trying to help people who do not help themselves. You cannot push any one up a ladder unless he be willing to climb a little himself. When you stop boosting, he falls, to his injury. Therefore, I have often said, and I now repeat, that the day is coming, and already we see its dawn, in which the man who dies possessed of millions of available wealth which was free and in his hands ready to be distributed will die disgraced. Of course I do not mean that the man in business may not be stricken down with his capital in the business, which cannot be withdrawn, for capital is the tool with which he works his wonders and produces more wealth. I refer to the man who dies possessed of millions of securities which are held simply for the interest they produce, that he may add to his hoard of miserable dollars. By administering surplus wealth during life great wealth may become a blessing to the community, and the occupation of the business man accumulating wealth may be elevated so as to rank with any profession. In this way he may take rank even with the physician, one of the highest of our professions, because he too, in a sense, will be a physician, looking after and trying not to cure, but to prevent, the ills of humanity. . . .

I may justly divide young men into four classes:

First, those who must work for a living, and set before them as their aim the acquisition of a modest competence—of course, with a modest but picturesque cottage in the country and one as a companion "who maketh sunshine in a shady place" and is the good angel of his life. The motto of this class, No. 1, might be given as "Give me neither poverty nor riches." "From the anxieties of poverty as from the responsibilities of wealth, good Lord, deliver us."

Class No. 2, comprising those among you who are determined to acquire wealth, whose aim in life is to belong to that much-talked-of and grandly abused class, the millionnaires, those who start to labour for the greatest good of the greatest number, but the greatest number always number one, the motto of this class being short and to the point: "Put money in thy purse."

Now, the third class comes along. The god they worship is neither wealth nor happiness. They are inflamed with "noble ambition;" the desire of fame is the controlling element of their lives. Now, while this is not so ignoble as the desire for material wealth, it must be said that it betrays more vanity. The shrine of fame has many worshippers. The element of vanity is seen in its fiercest phase among those who come before the public. It is well known, for instance, that musicians, actors, and even painters—all the artistic class—are peculiarly prone to excessive personal vanity. This has often been wondered at; but the reason probably is that the musician and the actor, and even the painter, may be transcendent in his special line without being even highly educated, without having an all-around brain. Some peculiarities, some one element in his character, may give him prominence or fame, so that his love of art, or of use through art, is entirely drowned by a narrow, selfish, personal vanity. But we find this liability in a lesser degree all through the professions, the politician, the lawyer, and, with reverence be it spoken, sometimes the minister; less, I think, in the physician than in any of the professions. . . .

But there is a fourth class, higher than all the preceding, who worship neither at the shrine of wealth nor fame, but at the noblest of all shrines, the shrine of service—service to the race. Self-abnegation is its watchword. Members of this inner and higher circle seek not popular applause, are concerned not with being popular, but with being right. They say with Confucius: "It concerneth me not that I have not high office; what concerns me is to make myself worthy of office." It is not cast down by poverty, neither unduly elated by prosperity. The man belonging to this class simply seeks to do his duty day by day in such manner as may enable him to honour himself, fearing nothing but his own self-reproach. I have known men and women not prominently before the public, for this class courts not prominence, but who in their lives proved themselves to have reached this ideal stage. . . .

# THE AMERICAN SCENE

JAMES BRYCE

UNLIKE many of the Englishmen who visited the United States during the eighties, James Bryce (1838-1922) did not content himself with a hurried railroad trip followed by an equally hurried volume of comment. Three journeys in America preceded the actual writing of the *American Commonwealth* and when the book appeared, in 1888, it was evident that the United States of the post-Reconstruction period had found a worthy interpreter.

Bryce's Scottish origin and education gave his observation a sympathetic detachment uncolored by the insularity perceptible even in Matthew Arnold. The historian's practice, for the *Holy Roman Empire* had already won Bryce a European reputation, helped him see the present in the light of the past. Bryce was a traveler and a working journalist as well; he had been a fairly successful lawyer—though he ceased to practice in 1882—and had been returned to Parliament. Thus, he had sufficient experience of the actualities of politics to be able to appreciate the living facts of the American political process.

Yet it cannot be said that Bryce carried through his original purpose: he had intended to describe the "more salient social and intellectual phenomena of contemporary America," but the greater part of his three large volumes is concerned with elucidating American political institutions. He is, therefore, most at home when describing the American legislature, the standardized look of the American town, or the glories of the legal institutions which the United States has inherited from England. After depicting the organization and activities of the Federal government, Bryce turns to the states.

It is the states that come closest to the daily

life of Americans and it is their activities that best show American politics in process. The Federal Constitution is of a "laudable brevity," Bryce notes, but the state constitutions do not follow that example; they have not relied on the courts to protect the popular will, but have limited their legislatures by constitutions which grow longer and more detailed at each revision. That tendency to make minute codes of state constitutions illustrates the essentially conservative nature of American democracy, which assumes that "every new measure is *prima facie* likely to do more harm than good" and, consequently, restrains its legislatures not merely by constitutional check but by executive veto and judicial review.

The multiplicity of governments, local, state and federal, requires a correspondingly elaborate political organization to operate them and that, in turn, necessitates strong political parties. In contrast to European experience, no American political contest has ever turned on questions of religion, race, land tenure or form of government, much less upon the threatening battle of poor men against rich. Centralism versus federalism; the love of order struggling with the love of liberty, these have been the two sources of American party conflicts. By the middle eighties, those conflicts had abated; hence, present party battles were for control of the patronage.

The lack of real difference of principle had not lessened popular interest in public affairs; it had merely professionalized the practice of politics and driven "quiet and fastidious" men from the arena in which bosses turned party conventions into gatherings of puppets and cities became bywords for inefficiency and corruption. Even quiet and fastidious men had

a boiling point, however, and Bryce describes the "better element" in its struggle against the Boss; a futile struggle for the most part since lapse from party regularity is still considered socially reprehensible, and "well-conducted men of small means" remain singularly apathetic. To balance that indifference and the consequent failure of municipal government to perform its proper functions, Bryce reminds his readers that only one seventh of the people of the United States live in cities and that smaller communities are less affected by the prevalent corruption than by their own unwillingness to spend money on necessary public services.

From the practice of party government, Bryce proceeds to consider the social attitudes which make that practice possible. Americans are so bludgeoned by their press that they discount charges of misgovernment. And they are so conditioned to optimism that they believe leaders will come forth when their country needs them. Since political intelligence is well diffused in the United States, its people look to each other rather than to leaders for guidance. Americans have small respect for the expert in any but the material field and as no organ of the American government is specifically charged with seeking out remedies, problems are ignored for decades while orators pour their floods of words on issues that have been settled long since.

As Bryce turns his eyes westward, he notices a social conscience developing along with the West's absorbing concern with material progress. The new states are impatient of the slow working of natural law and show a readiness to legislate on the liquor and labor questions.

The West is granting women a greater measure of political rights, too, and engaging in experimental projects.

Bryce finds fault with America for failings charged before and since. These are a lack of independence in thought and a lack of individuality in aspect. The demands of party force men into molds and the pattern of civilization forces towns all over the country into the same rectangles filled by the same ice-cream parlors, undertakers, saloons, and Chinese laundries. There is little respect for privacy. But these are the characteristics of an optimistic people who believe in themselves and in their future.

Bryce liked America. If her men were so absorbed in business that the function of maintaining the level of culture has devolved on her women, that culture is "safe in their hands." If, with every natural and historic advantage in its favor, the United States has produced no golden age, if she is too hurried for philosophy or art, if her upper classes are too apathetic to raise the low tone of public life, America nevertheless is still rich enough in human and material resources to afford errors. The United States means what she says by her devotion to equality of opportunity, and all thinking is informed by the conviction that she will have a great intellectual flowering once her material work is done. And, in the meantime, the United States marks the highest level of material wellbeing, intelligence, and happiness "which the race has yet attained."

The selections here reprinted are from *The American Commonwealth*, Vol. III (original New York and London edition, 1888).

## *The American Commonwealth*

BY JAMES BRYCE

### CHAPTER XCII: LAISSEZ FAIRE

AN ENGLISH FRIEND of a philosophic turn of mind bade me, when he heard that I was writing this book, dedicate at least one chapter to the Amer-

ican theory of the State. When I answered that the Americans had no theory of the State, and felt no need for one, being content, like the English, to base their constitutional ideas upon law and history, he rejoined that people in America must

at least have some general views about the functions of government and its relations to the individual. "We are told," he continued, "that the whole American polity is more coherent, more self-consistent than that of England; it must therefore have what the Germans call 'ground-ideas.' . . .

The term "ground-ideas" does not happily describe the doctrines that prevail in the United States, for the people are not prone to form or state their notions in a philosophic way. There are, however, certain dogmas or maxims which are in so far fundamental that they have told widely on political thought, and that one usually strikes upon them when sinking a shaft, so to speak, into an American mind. Among such dogmas are the following:—

Certain rights of the individual, as, for instance, his right to the enjoyment of what he has earned, to the free expression of opinion, are primordial and sacred.

All political power springs from the people, and the most completely popular government is best.

Legislatures, officials, and all other agents of the sovereign people ought to be strictly limited by law, by each other, and by the shortness of the terms of office.

Where any function can be equally well discharged by a central or by a local body, it ought by preference to be entrusted to the local body, for a centralized administration is more likely to be tyrannical, inefficient, and impure than one which, being on a small scale, is more fully within the knowledge of the citizens and more sensitive to their opinion.

Two men are wiser than one, one hundred than ninety-nine, thirty millions than twenty-nine millions. Whether they are wiser or not, the will of the larger number must prevail against the will of the smaller. But the majority is not wiser because it is called the Nation, or because it controls the government, but only because it is more numerous. The nation is nothing but so many individuals. The government is nothing but certain representatives and officials, agents who are here to-day and gone to-morrow.

The less of government the better; that is to say, the fewer occasions for interfering with individual citizens are allowed to officials, and the less time citizens have to spend in looking after their officials, so much the more will the citizens and the community prosper. The functions of government must be kept at their minimum.

The first five of these dogmas have been discussed and illustrated in earlier chapters. The last

of them needs a little examination, because it suggests points of comparison with the Old World, and because the meaning of it lies in the application. It is all very well to say that the functions of government should be kept at a minimum; but the bureaucrats of Russia might say the same. What is this minimum? Every nation, every government, every philosopher has his own view as to the functions which it must be taken to include.

The doctrine of *laissez faire*, or non-interference by government with the citizen, has two foundations, which may be called the sentimental and the rational. The sentimental ground is the desire of the individual to be let alone, to do as he pleases, indulge his impulses, follow out his projects. The rational ground is the principle, gathered from an observation of the phenomena of society, that interference by government more often does harm than good—that is to say, that the desires and impulses of men when left to themselves are more likely by their natural collision and co-operation to work out a happy result for the community and the individuals that compose it than will be attained by the conscious endeavours of the state controlling and directing those desires and impulses. There are laws of nature governing mankind as well as the material world; and man will thrive better under these laws than under those which he makes for himself through the organization we call government.

Of these two views, the former or sentimental has been extremely strong in America, being rooted in the character and habits of the race, and seeming to issue from that assertion of individual liberty which is proclaimed in such revered documents as the Declaration of Independence and the older State constitutions. The latter view, incessantly canvassed in Europe, has played no great part in the United States; or rather it has appeared in the form not of a philosophic induction from experience, but of a common-sense notion that everybody knows his own business best, that individual enterprise has "made America," and will "run America," better than the best government could do.

The State governments of 1776 and the National government of 1789 started from habits and ideas similar to those of contemporary England. Now England in the eighteenth century was that one among European countries in which government had the narrowest sphere. The primitive paternal legislation of the later middle ages had been abandoned. The central government had not begun to stretch out its arms to interfere with quarter sessions in the counties, or municipal corporations



in the towns, to care for the health, or education, or morals of the people. That strengthening and reorganization of administration which was in progress in many parts of the continent, as in Prussia under Frederick the Great, and in Portugal under Pombal, had not spread to England, and would have been resisted there by men of conservative tendencies for one set of reasons, and men of liberal tendencies for another. Everything tended to make the United States in this respect more English than England, for the circumstances of colonial life, the process of settling the western wilderness, the feelings evoked by the struggle against George III., all went to intensify individualism, the love of enterprise, the pride in personal freedom. And from that day to this, individualism, the love of enterprise, and the pride in personal freedom, have been deemed by Americans not only their choicest, but their peculiar and exclusive possessions.

The hundred years which have passed since the birth of the Republic have, however, brought many changes with them. Individualism is no longer threatened by arbitrary kings, and the ramparts erected to protect it from their attacks are useless and grass-grown. If any assaults are to be feared they will come from another quarter. New causes are at work in the world tending not only to lengthen the arms of government, but to make its touch quicker and firmer. Do these causes operate in America as well as in Europe? and if so, does America, in virtue of her stronger historical attachment to individualism, oppose a more effective resistance to them?

I will mention a few among them. Modern civilization, in becoming more complex and refined, has become more exacting. It discerns more benefits which the organized power of government can secure, and grows more anxious to attain them. Men live fast, and are impatient of the slow working of natural laws. The triumphs of physical science have enlarged their desires for comfort, and shown them how many things may be accomplished by the application of collective skill and large funds which are beyond the reach of individual effort. Still greater has been the influence of a quickened moral sensitiveness and philanthropic sympathy. The sight of preventible evil is painful, and is felt as a reproach. He who preaches patience and reliance upon natural progress is thought callous. The sense of sin may, as theologians tell us, be declining; but the dislike to degrading and brutalizing vice is increasing: there is a warmer recognition of the responsibility of each man for his neighbour, and a more earnest zeal in works of moral reform. Some doctrines

which, because they had satisfied philosophers, were in the last generation accepted by the bulk of educated men, have now become, if not discredited by experience, yet far from popular. They are thought to be less universally true, less completely beneficial, than was at first supposed. There are benefits which the laws of demand and supply do not procure. Unlimited competition seems to press too hardly on the weak. The power of groups of men organized by incorporation as joint-stock companies, or of small knots of rich men acting in combination, has developed with unexpected strength in unexpected ways, overshadowing individuals and even communities, and showing that the very freedom of association which men sought to secure by law when they were threatened by the violence of potentates may, under the shelter of the law, ripen into a new form of tyranny. And in some countries, of which England may be taken as the type, the transference of political power from the few to the many has made the many less jealous of governmental authority. The government is now their creature, their instrument—why should they fear to use it? They may strip it to-morrow of the power with which they have clothed it to-day. They may rest confident that its power will not be used contrary to the wishes of the majority among themselves. And as it is in this majority that authority has now been vested, they readily assume that the majority will be right.

How potent these influences and arguments have proved in the old countries of Europe, how much support they receive not only from popular sentiment, but from the writings of a vigorous school of philosophical economists all the world knows. But what of newer communities, where the evils to be combated by state action are fewer, where the spirit of liberty and the sentiment of individualism are more intense? An eminent English statesman expresses the general belief of Englishmen when he says—

“How is it that while the increasing democracy at home is insisting, with such growing eagerness, on more control by the state, we see so small a corresponding development of the same principle in the United States or in Anglo-Saxon colonies? It is clearly not simply the democratic spirit which demands so much central regulation. Otherwise we should find the same conditions in the Anglo-Saxon democracies across the seas.”<sup>1</sup>

<sup>1</sup> Mr. Goschen, in an instructive address delivered at Edinburgh in 1883, on *laissez faire* and government interference.



This belief of Englishmen is also the general belief of Americans. I suppose that nine men out of ten would tell a stranger that both the Federal government and the State governments interfered little, and would ascribe the prosperity of the country to this non-interference as well as to the self-reliant spirit of the people. So far as there can be said to be any theory on the subject in a land which gets on without theories, *laissez aller* is the orthodox and accepted doctrine in the sphere both of Federal and of State legislation.

Nevertheless the belief is groundless. The new democracies of America are just as eager for state interference as the democracy of England, and try their experiments with even more light-hearted promptitude. No one need be surprised at this when he reflects that the causes which have been mentioned as telling on Europe, tell on the United States with no less force. Men are even more eager than in Europe to hasten on to the ends they desire, even more impatient of the delays which a reliance on natural forces involves, even more sensitive to the wretchedness of their fellows, and to the mischiefs which vice and ignorance breed. Unrestricted competition has shown its dark side: great corporations have been more powerful than in England, and more inclined to abuse their power. Having lived longer under a democratic government, the American masses have realized more perfectly than those of Europe that they are themselves the government. Their absolute command of its organization (except where constitutional checks are interposed) makes them turn more quickly to it for the accomplishment of their purposes. And in the State legislatures they possess bodies with which it is easy to try legislative experiments, since these bodies, though not of themselves disposed to innovation, are mainly composed of men unskilled in economics, inapt to foresee any but the nearest consequences of their measures, prone to gratify any whim of their constituents, and open to the pressure of any section whose self-interest or impatient philanthropy clamours for some departure from the general principles of legislation. For crotchet-mongers as well as for intriguers there is no such paradise as the lobby of a State legislature. No responsible statesman is there to oppose them, no warning voice will be raised by a scientific economist.

Thus it has come to pass that, though the Americans conceive themselves to be devoted to *laissez faire* in theory, and to be in practice the most self-reliant of peoples, they have grown no less accustomed than the English to carry the action of the State into everwidening fields. Economic theory did not stop them, for practical men are proud of

getting on without theory. The sentiment of individualism did not stop them, because State intervention has usually taken the form of helping or protecting the greater number, while restraining the few; and personal freedom of action, the love of which is strong enough to repel the paternalism of France or Germany, has been infringed upon only at the bidding of a strong moral sentiment, such as that which condemns intemperance. So gradual has been the process of transition to this new habit that few but lawyers and economists have yet become aware of it, and the lamentations with which old-fashioned English thinkers accompany the march of legislation are in America scarcely heard and wholly unheeded.

As the field of ordinary private law and administration belongs to the States, it is chiefly in State legislation that we must look for instances of governmental intervention. They are so numerous and various that it is hard to select the most salient. . . . It is in the West, which plumes itself on being pre-eminently the land of freedom, enterprise, and self-help, that this tendency is most active, and plays the strangest pranks, because, in the West, legislators are more impatient and self-confident than elsewhere.

The forms which legislative intervention takes may be roughly classified under the following heads:—

Prohibitions to individuals to do acts which are not, in the ordinary sense of the word, criminal (e.g. to sell intoxicating liquors, to employ a labourer for more than so many hours in a day).

Directions to individuals to do things which it is not obviously wrong to omit (e.g. to provide seats for shop-women, to publish the accounts of a railway company).

Interferences with the ordinary course of law in order to protect individuals from the consequences of their own acts (e.g. the annulment of contracts between employer and workmen making the former not liable for accidental injuries to the latter; the exemption of homesteads, or of a certain amount of personal property, from the claims of creditors, the prohibition of more than a certain rate of interest on money).

Directions to a public authority to undertake work which might be left to individual action and the operation of supply and demand (e.g. the providing of schools and dispensaries, the establishment of State analysts, State oil inspectors, the collection and diffusion, at the public expense, of statistics).

In every one of these kinds of legislative interference the Americans, or at least the Western States, seem to have gone farther than the English

Parliament. The restrictions on the liquor traffic have been more sweeping; those upon the labour of women and children, and of persons employed by the State, not less so. Moral duties are more frequently enforced by legal penalties than in England. Railroads, insurance and banking companies, and other corporations are, in most States, strictly regulated. Efforts to protect individuals coming under the third head are so frequent and indulgent that their policy is beginning to be seriously questioned. Gratuitous elementary and secondary education is provided all over the Union, and in the West there are also gratuitous State universities open to women as well as to men. And although the State has not gone so far in superseding individual action as to create for itself monopolies, it is apt to spend money on some objects not equally cared for by European governments. It tries to prevent adulteration by putting its stamp on agricultural fertilizers, and prohibiting the sale of oleomargarine; it establishes dairy commissions and bureaux of animal industry, it distributes seed to farmers, subsidizes agricultural fairs, sends round lecturers on agriculture, and encourages by bounties the culture of beetroot, tree-planting, and the killing of noxious animals. The farmer of Kansas or Iowa is as much the object of the paternal solicitude of his legislature as the farmer of any European country. And in the pursuit of its schemes for blessing the community the State raises a taxation which would be complained of in a less prosperous country.

What has been the result of this legislation? Have the effects which the economists of the physiocratic or *laissez aller* school taught us to expect actually followed? Has the natural course of commerce and industry been disturbed, has the self-helpfulness of the citizen been weakened, has government done its work ill and a new door to jobbery been opened? It is still too soon to form conclusions on these points. Some few of the experiments have failed, others seem to be succeeding; but the policy of State interference as a whole has not yet been adequately tested. In making this new departure American legislatures are serving the world, if not their own citizens, for they are providing it with a store of valuable data for its instruction, data which deserve more attention than they have hitherto received, and whose value will increase as time goes on.

It is the privilege of these unconscious philosophers to try experiments with less risk than countries like France or England would have to run, for the bodies on which the experiments are tried are so relatively small and exceptionally vigorous that failures need not inflict permanent injury. No

people is shrewder than the American in perceiving when a law works ill, nor prompt in repealing it. . . .

#### CHAPTER CXII: THE PLEASANTNESS OF AMERICAN LIFE

I have never met a European of the upper or middle classes who did not express astonishment when told that America was a more agreeable place than Europe to live in. "For working men," he would answer, "yes; but for men of education or property, how can a new rough country, where nothing but business is talked and the refinements of life are only just beginning to appear, how can such a country be compared with England, or France, or Italy?"

It is nevertheless true that there are elements in the life of the United States which may well make a European of any class prefer to dwell there rather than in the land of his birth. Let us see what they are.

In the first place there is the general prosperity and material well-being of the mass of the inhabitants. In Europe, if an observer takes his eye off his own class and considers the whole population of any one of the greater countries (for I except Switzerland and parts of Scandinavia and Portugal), he will perceive that by far the greater number lead very laborious lives, and are, if not actually in want of the necessities of existence, yet liable to fall into want, the agriculturists when nature is harsh, the wage-earners when work is scarce. In England the lot of the labourer has been hitherto a hard one, incessant field toil, with rheumatism at fifty and the workhouse at the end of the vista; while the misery massed in such cities as London, Liverpool, and Glasgow is only too well known. In France there is less pauperism, but nothing can be more pinched and sordid than the life of the bulk of the peasantry. In the great towns of Germany there is constant distress and increasing discontent. . . . Contrast any one of these countries with the United States, where the working classes are as well fed, clothed, and lodged as the lower middle-class in Europe, and the farmers who till their own land (as nearly all do) much better, where a good education is within the reach of the poorest, where the opportunities for getting on in one way or another are so abundant that no one need fear any physical ill but disease or the results of his own intemperance. Pauperism already exists and increases in some of the larger cities, where drink breeds misery, and where recent immigrants, with the shiftlessness of Europe still clinging round them, are huddled together in squalor. But outside these few cities

one sees nothing but comfort. In Connecticut and Massachusetts the operatives in many a manufacturing town lead a life far easier, far more brightened by intellectual culture and by amusements, than that of the clerks and shopkeepers of England or France. In cities like Cleveland or Chicago one finds miles on miles of suburb filled with neat wooden houses, each with its tiny garden plot, owned by the shop assistants and handicraftsmen who return on the horse cars in the evening from their work. All over the wide West, from Lake Ontario to the Upper Missouri, one travels past farms of two to three hundred acres, in every one of which there is a spacious farmhouse among orchards and meadows, where the farmer's children grow up strong and hearty on abundant food, the boys full of intelligence and enterprise, ready to push their way on farms of their own or enter business in the nearest town, the girls familiar with the current literature of England as well as of America. The life of the new emigrant in the further West has its privations in the first years, but it is brightened by hope, and has a singular charm of freedom and simplicity. The impression which this comfort and plenty makes is heightened by the brilliance and keenness of the air, by the look of freshness and cleanness which even the cities wear, all of them except the poorest parts of those few I have referred to above. The fog and soot-flakes of an English town, as well as its squalor, are wanting; you are in a new world, and a world which knows the sun. It is impossible not to feel warmed, cheered, invigorated by the sense of such material well-being all around one, impossible not to be infected by the buoyancy and hopefulness of the people. The wretchedness of Europe lies far behind; the weight of its problems seems lifted from the mind. . . .

The second charm of American life is one which some Europeans will smile at. It is social equality. To many Europeans—to Germans, let us say, or Englishmen—the word has an odious sound. It suggests a dirty fellow in a blouse elbowing his betters in a crowd, or an ill-conditioned villager shaking his fist at the parson and the squire; or, at any rate, it suggests obtrusiveness and bad manners. The exact contrary is the truth. Equality improves manners, for it strengthens the basis of all good manners, respect for other men and women simply as men and women, irrespective of their station in life. Probably the assertion of social equality was one of the causes which injured American manners forty years ago, for that they were then bad among townsfolk can hardly be doubted in face of the testimony, not merely of sharp tongues like Mrs. Trollope's, but of calm

observers like Sir Charles Lyell and sympathetic observers like Richard Cobden. In those days there was an obtrusive self-assertiveness among the less refined classes, especially towards those who, coming from the Old World, were assumed to come in a patronizing spirit. Now, however, social equality has grown so naturally out of the circumstances of the country, has been so long established, and is so ungrudgingly admitted, that all excuse for obtrusiveness has disappeared. People meet on a simple and natural footing, with more frankness and ease than is possible in countries where every one is either looking up or looking down. There is no servility on the part of the humbler, and if now and then a little of the "I am as good as you" rudeness be perceptible, it is almost sure to proceed from a recent immigrant, to whom the attitude of simple equality has not yet become familiar as the evidently proper attitude of one man to another. There is no condescension on the part of the more highly placed, nor is there even that sort of scrupulously polite coldness which one might think they would adopt in order to protect their dignity. They have no cause to fear for their dignity, so long as they do not themselves forget it. And the fact that your shoemaker or your factory hand addresses you as an equal does not prevent him from respecting, and showing his respect for, all such superiority as your birth or education or eminence in any line of life may entitle you to receive. . . .

There are, moreover, other rancours besides those of social inequality whose absence from America brightens it to a European eye. There are no quarrels of churches and sects. Judah does not vex Ephraim, nor Ephraim envy Judah. No Established Church looks down scornfully upon Dissenters from the height of its titles and endowments, and talks of them as hindrances in the way of its work. No Dissenters pursue an Established Church in a spirit of watchful jealousy, nor agitate for its overthrow. One is not offended by the contrast between the theory and the practice of a religion of peace, between professions of universal affection in pulpit addresses and forms of prayer, and the acrimony of clerical controversialists. Still less, of course, is there that sharp opposition and antagonism of Christians and anti-Christians which lacerates the private as well as public life of France. Rivalry between sects appears only in the innocent form of the planting of new churches and raising of funds for missionary objects, while most of the Protestant denominations, including the four most numerous, constantly fraternize in charitable work. Between Roman Catholics and Protestants there is little hostility, and sometimes

co-operation for a philanthropic purpose. The sceptic is no longer under a social ban, and discussions on the essentials of Christianity and of theism are conducted with good temper. There is not a country in the world where Frederick the Great's principle, that every one should be allowed to go to heaven his own way, is so fully applied. This sense of religious peace as well as religious freedom all around one is soothing to the weary European, and contributes not a little to sweeten the lives of ordinary people.

I come last to the character and ways of the Americans themselves, in which there is a certain charm, hard to convey by description, but felt almost as soon as one sets foot on their shore, and felt constantly thereafter. They are a kindly people. Good nature, heartiness, a readiness to render small services to one another, an assumption that neighbours in the country, or persons thrown together in travel, or even in a crowd, were meant to be friendly rather than hostile to one another,

seem to be everywhere in the air, and in those who breathe it. Sociability is the rule, isolation and moroseness the rare exception. . . . To help others is better recognized as a duty than in Europe. Nowhere is money so readily given for any public purpose; nowhere, I suspect, are there so many acts of private kindness done, such, for instance, as paying the college expenses of a promising boy, or aiding a widow to carry on her husband's farm; and these are not done with ostentation. People seem to take their own troubles more lightly than they do in Europe, and to be more indulgent to the faults by which troubles are caused. It is a land of hope, and a land of hope is a land of good humour. And they have also, though this is a quality more perceptible in women than in men, a remarkable faculty for enjoyment, a power of drawing more happiness from obvious pleasures, simple and innocent pleasures, than one often finds in overburdened Europe. . . .

# AMERICAN PROBLEMS

## DISCONTENTED AMERICA

WILLIAM A. PEFFER

IN EASTERN EYES, the Populist was a man who found self-expression in financial heresy and a long beard. William Alfred Pepper (1831-1912) fitted the stereotype completely and his white whiskers gave the unfriendly cartoonists of the day exactly the opportunity they had been seeking.

Pepper, who was born in Pennsylvania of Dutch ancestry, left for California to seek his fortune, failed, and returned home to move west once more. His migrations were halted in Illinois when he enlisted in 1862. Army service did not hinder Pepper's studies, however, and he was admitted to the bar almost on being mustered out. A few years later he moved to Kansas, settled into an editor's chair, and took a journalist's share in politics. By 1881, Pepper's *Kansas Farmer* was an influential rural paper. When the decade ended, he was urging his readers to join the Farmers' Alliance and demonstrate their political independence. His election to the Senate in 1890 proved the strength of the uprising.

In *The Farmer's Side* (1891), Pepper sought to explain his section to the rest of the country. The farmer is losing ground in comparison with the other elements in the nation; his prices and profits are declining while his debt burden is rising. Before the Civil War, men farmed on a small scale and raised almost all their needs; machinery has increased the farmer's productive power, but it has also subjected him to a new discipline, the rule of a distant and uncontrollable market.

Unlike other agrarian spokesmen, Pepper does not mourn for the days that are dead: the farmer must live in the new world. Combination alone will enable him to cope with his problems. Among those, none is more pressing

than the burden of debt. While the government pays 4 percent for money, the people are paying from 6 to 12 percent, especially on mortgage loans which are negotiated by middlemen. For years, financial legislation has been designed to contract the currency, thus reducing prices for the benefit of creditors. Yet neither an increase in paper currency nor free coinage of silver can counteract that price decline unless interest rates are reduced, Pepper argues.

The money power must be neutralized, therefore, and this is a task which can be accomplished only by political action. No relief is to be expected from hidebound old-party leadership, however; the people must act for themselves. They must build a competing transcontinental railroad, to be free of debt and to be financed by an issue of greenbacks instead of watered stocks and bonds. The people, through their government, must resume control of their money. Since Congress is authorized to regulate commerce and since money is an essential instrument of trade, Congress has constitutional power to take effective action. The Federal government can lend to the people directly as well as through the National Banks. Congress should establish a loan bureau to provide credit at 1 percent per annum, with 9 percent of the principal of such loans being repaid each year. That measure would end excessive interest charges and the weight of perpetual debt. In addition, money should be lent on nonperishable commodities stored in warehouses known as "sub-treasuries."

The selection here reprinted is from *The Farmer's Side* (New York, 1891).

*The Farmer's Side*

BY WILLIAM A. PEFFER

PART II: HOW WE GOT HERE, CHAPTER I:  
CHANGED CONDITION OF THE FARMER

THE AMERICAN FARMER of to-day is altogether a different sort of a man from his ancestor of fifty or a hundred years ago. A great many men and women now living remember when farmers were largely manufacturers; that is to say, they made a great many implements for their own use. Every farmer had an assortment of tools with which he made wooden implements, as forks and rakes, handles for his hoes and plows, spokes for his wagon, and various other implements made wholly out of wood. Then the farmer produced flax and hemp, and wool and cotton. These fibers were prepared upon the farm; they were spun into yarn, woven into cloth, made into garments, and worn at home. Every farm had upon it a little shop for wood and iron work, and in the dwelling were cards and looms; carpets were woven, bed-clothing of different sorts was prepared; upon every farm geese were kept, their feathers used for supplying the home demand with beds and pillows, the surplus being disposed of at the nearest market town. During the winter season wheat and flour and corn meal were carried in large wagons drawn by teams of six to eight horses a hundred or two hundred miles to market, and traded for farm supplies for the next year—groceries and dry goods. Besides this, mechanics were scattered among the farmers. . . . All these things were done among the farmers, and a large part of the expense was paid with products of the farm. . . .

One of the results of that sort of economy was that comparatively a very small amount of money was required to conduct the business of farming. A hundred dollars average probably was as much as the largest farmers of that day needed in the way of cash to meet the demands of their farm work, paying for hired help, repairs of tools, and all other incidental expenses, because so much was paid for in produce.

Coming from that time to the present, we find that everything nearly has been changed. All over the West particularly the farmer thrashes his wheat all at one time, he disposes of it all at one time, and in a great many instances the straw is wasted. He sells his hogs, and buys bacon and pork; he sells his cattle, and buys fresh beef and canned beef or corned beef, as the case may be; he sells his fruit, and buys it back in cans. If he raises flax at all, instead of putting it into yarn

and making gowns for his children, as he did fifty years or more ago, he thrashes his flax, sells the seed, and burns the straw. Not more than one farmer in fifty now keeps sheep at all; he relies upon the large sheep farmer for the wool, which is put into cloth or clothing ready for his use. Instead of having clothing made up on the farm in his own house or by a neighbor woman or country tailor a mile away, he either purchases his clothing ready made at the nearest town, or he buys the cloth and has a city tailor make it up for him. . . .

Besides all this, and what seems stranger than anything else, whereas in the earlier time the American home was a free home, unencumbered, not one case in a thousand where a home was mortgaged to secure the payment of borrowed money, and whereas but a small amount of money was then needed for actual use in conducting the business of farming, there was always enough of it among the farmers to supply the demand, now, when at least ten times as much is needed, there is little or none to be obtained, nearly half the farms are mortgaged for as much as they are worth, and interest rates are exorbitant.

As to the cause of such wonderful changes in the condition of farmers, nothing more need be said in this place than that the railroad builder, the banker, the money changer, and the manufacturer undermined the farmer. The matter will be further discussed as we proceed. The manufacturer came with his woolen mill, his carding mill, his broom factory, his rope factory, his wooden-ware factory, his cotton factory, his pork-packing establishment, his canning factory and fruit-preserving houses; the little shop on the farm has given place to the large shop in town; the wagon-maker's shop in the neighborhood has given way to the large establishment in the city where men by the thousand work and where a hundred or two hundred wagons are made in a week; the shoemaker's shop has given way to large establishments in the cities where most of the work is done by machines; the old smoke house has given way to the packing house, and the fruit cellars have been displaced by preserving factories. The farmer now is compelled to go to town for nearly everything that he wants; even a hand rake to clean up the door-yard must be purchased at the city store. And what is worse than all, if he needs a little more money than he has about him, he is compelled to go to town to

borrow it; but he does not find the money there: in place of it he finds an agent who will "negotiate" a loan for him. The money is in the East, a thousand or three thousand or five thousand miles away. He pays the agent his commission, pays all the expenses of looking through the records and furnishing abstracts, pays for every postage stamp used in the transaction, and finally receives a draft for the amount of money required, minus these expenses. In this way the farmers of the country to-day are maintaining an army of middlemen, loan agents, bankers, and others, who are absolutely worthless for all good purposes in the community, whose services ought to be, and very easily could be, dispensed with, but who, by reason of the changed condition of things, have placed themselves between the farmer and the money owner, and in this way absorb a livelihood out of the substance of the people.

#### CHAPTER IV: SETTLEMENT OF THE NEW WEST

. . . In the course of a few years after the war an area in the western part of our country larger than the original thirteen States was settled and large portions of it brought under cultivation. Farms were opened, towns were built, churches and school-houses dotted the plains and hills, and a post-office was established within easy reach of every man's door. But in doing this it became necessary to make extended investments, both of credit and of money. The settlers were generally poor; they were offered the railroad lands at an average of about \$3 an acre upon the payment of a small portion cash—10 per cent or thereabouts—the rest in ten annual payments with interest at 7 to 10 per cent, giving a mortgage to the company as security for deferred payments. In connection with this sort of railroad extension and settlement, feeding roads were projected in all directions, and the people who settled upon the lands to be supplied with the new roads were asked to assist in the projects by voting municipal bonds. This resulted in a large bonded indebtedness of the townships, counties, and cities all through the West. The price which the railroad companies fixed upon the lands had the effect in law and in fact to raise the price of the reserved Government sections to two dollars and a half an acre. The homestead law did not apply anywhere within the limits of a railroad grant. Upon the public lands outside of the railroad limits any person authorized to make a homestead entry was entitled to locate, and for a few dollars (to pay fees and necessary expenses), he could obtain a quarter section of land and make a home upon it; but it required money to buy the lands within the rail-

road limits either from the company or from the Government, and a good deal of money for a poor man. The only way to obtain the money was to borrow it, and as a part of this scheme of settlement a vast system of money lending had been established, with agents in every town along the lines of the new roads engaged in the business of negotiating loans, advertising their work far and wide, so that the purchasers of lands from either the railroad company or from the Government within the limits of the grants need only apply to these money lenders, and for a commission to the "middle man" could obtain money from Eastern owners in any conceivable amount. It was not long until the whole country in the region of these new roads was mortgaged. While the lands were fertile they did not produce any more than other lands of equal fertility, and they were so far away from the markets of the country that transportation ate up from 60 to 75 per cent of the value of the crops. . . . In a large majority of cases it became necessary to borrow more money in order to meet maturing obligations. Rates of interest were exorbitant, rates of transportation on the railroads were unreasonably high, taxes were excessive, salaries of officers were established by law and were uniformly high, while there was but little property and comparatively few tax payers at that early period in the settlement, so that the burdens of taxation fell heavily upon the few who were ready to be caught by the tax gatherer.

In connection with these proceedings it is proper to mention a fact which will be more fully elaborated further on, that while the burdens just mentioned were increasing other forces were operating to add to the difficulties in the farmers' way. The people were rapidly taking upon themselves new obligations, while, by reason of the contraction of currency, prices of farm products fell to a very low figure—in many cases below the cost line—and in a proportionate degree taxes and debts of all kinds increased relatively. While one hundred dollars were the same on paper in 1889 that they were in 1869, yet by reason of the fall in values of products out of which debts were to be paid the dollars grew just that much larger. It required twice as many bushels of wheat or of corn or of oats, twice as many pounds of cotton or tobacco or wool to pay a debt in 1887 as it did to pay a debt of the same amount in 1867. While dollars remained the same in name, they increased 100 per cent in value when compared with the property of the farmer out of which debts were to be paid; and while a bushel of wheat or of oats or of corn was the same in weight and in measure in 1887 that it was in 1867,

yet it required twice as many bushels to pay the same amount of debt. The same principle holds good in all of the different obligations for which the farmers were liable, and is applicable to the only property with which they were supplied to pay their indebtedness. It became necessary under those conditions to renew loans, pay additional commissions, contract new obligations, until to-day we find that fully one third of the farms of the country, especially of the western part of the country, are under mortgage. In some counties from three fourths to seven eighths of the homes of the farmers are mortgaged for more than they would sell for under the hammer.

It is said frequently that the farmer himself is to blame for all of these misfortunes. If that were true it would afford no relief, but it is not true. The farmer has been the victim of a gigantic scheme of spoliation. Never before was such a vast aggregation of brains and money brought to bear to force men into labor for the benefit of a few. The railroad companies, after obtaining grants of land with which to build their roads, not only sold the lands to settlers and took mortgages for deferred payments, but, after beginning the work of building their roads, they issued bonds and put them upon the market, doubled their capital upon paper, compelling the people who patronized the roads to pay in enhanced cost of transportation all these additional burdens. The roads were built without any considerable amount of money upon the part of the original stockholders, and where any money had been invested in the first place, shrewd managers soon obtained control of the business and the property. So large a proportion of the public lands was taken up by these grants to corporations that there was practically very little land left for the homestead settler. It appears from an examination of the records that from the time our first land laws went into operation until the present time the amount of money received from sales of public lands does not exceed the amount of money received from customs duties on foreign goods imported into this country during the last year, while the lands granted to railroad companies directly, and to States for the purpose of building railroads indirectly, if sold at the Government price of \$1.25 an acre, would be equal to three times as much as was received from sales of the public lands directly to actual settlers. The farmer was virtually compelled to do just what he has done. The railroad builder took the initiative. Close by his side was the money changer. The first took possession of the land, the other took possession of the farmer. One compelled the settler to pay the price

fixed upon the railroad lands by the railroad company; the other compelled the settler on the public lands within the grant to pay the increased price, and to borrow money through him to make the payments on both. This system continued until the farmer, accommodating himself to prevailing conditions, was in the hands of his destroyers. Now we find the railroad companies capitalized for from five to eight times their assessed value, the farmer's home is mortgaged, the city lot is mortgaged, the city itself is mortgaged, the county is mortgaged, the township is mortgaged, and all to satisfy this over-reaching, soulless, merciless, conscienceless grasping of avarice. In the beginning of our history nearly all the people were farmers, and they made our laws; but as the national wealth increased they gradually dropped out and became hewers of wood and drawers of water to those that own or control large aggregations of wealth. They toiled while others took the increase; they sowed, but others reaped the harvest. It is avarice that despoiled the farmer. Usury absorbed his substance. He sweat gold, and the money changers coined it. And now, when misfortunes gather about and calamity overtakes him, he appeals to those he has enriched only to learn how poor and helpless he is alone.

#### CHAPTER VI: INTEREST RATES IN THE UNITED STATES

Concerning interest rates paid in the United States, while the Government, during the most trying period of our great war, never agreed to pay more than 7 $\frac{1}{2}$  per cent, and while rates on Government bonds have been reduced to 4 per cent, with pending propositions by distinguished statesmen to float 3-per-cent and 2-per-cent bonds running fifty years, the people as individual borrowers have paid as high as 50 per cent on yearly loans, and are now paying from 6 per cent to 12 per cent on long-time loans, and much more on short-time loans. . . .

The "interest mortgage" is a device to protect the loan agent from the operation of laws against usury. The first or principal mortgage, which recites the amount of money actually borrowed, secures payment of lawful interest only, and the second or *interest* mortgage secures the agent's fees in addition to the margin which he charges up against the owner of the money. It must be remembered that the business of negotiating loans has grown to a profession. It is rare now that a borrower ever contracts with the owner of the money he receives. The act of borrowing is performed through the agency of a "middle man," who is known as a loan agent, and he exacts fees



from both parties to the contract. He secures an investment for the owner of the money and charges him a fee for that; he secures a loan for the borrower and charges him for that. All below the legal rate of interest he can collect in court, and he does not need to conceal anything in regard to that; but all demands above the legal rate are usurious, and he may have some trouble about it in case he goes into court, so he puts this into a separate note and mortgage and "takes chances." This interest mortgage business is well understood among the victims. It is one department of a vast business which was plainly described by Prof. J. W. Gleed, of Kansas, in *The Forum* for March, 1890:

The Western mortgage business was begun by individual brokers, who invested on their own judgment, based on personal knowledge of borrowers and securities. Their profit lay in the margin between the low interest capitalists would accept and the high interest borrowers would pay. Capitalists sent their money for investment, and mortgages were made to them directly, so that the brokers required no capital. The business of bringing borrower and lender together has always been profitable. The broker of the community becomes the capitalist of the community. The Western mortgage brokers have been no exception to the rule. One of them in Kansas has made nearly \$10,000,000 since 1870. The business developed rapidly. As increased capital has become necessary, individual brokers have given way to corporations. There are probably two hundred such corporations now operating in Nebraska and Kansas alone. While the individual broker confined his operations to his own and adjoining counties, the corporation took States for its field, established local agents, and adopted the plan of taking all mortgages in the company's name. . . . As to the payment of the commission, various plans are in use. The most profitable is this: Out of the proceeds of the note and mortgage the negotiator receives all the expense of making the loan and his commission. For many years this commission was enormous. The companies located at St. Paul, Omaha, Des Moines, Kansas City, St. Joseph, Topeka, Denver, or Dallas sometimes received as high as 15 per cent commission on a five-year loan, and for many years the home company never received less than 10 per cent. The local agent exacted all that he could above this amount. Another custom as to commission is to secure it by notes and a second mortgage. This commission is usually made payable in ten semi-annual installments. On default in the payment of one installment, the whole sum becomes due. Embodied in the note or mortgage are all conceivable provisions for the protection of the lender. Interest is made payable semi-annually, and is represented by interest coupons that bear interest from maturity at the highest legal rate. The borrower assures the payment of the taxes, and agrees to keep the buildings insured for the benefit of the mortgagee. On default in the payment of interest

or in the performance of any of the agreements of the note or mortgage, the lender may declare the whole amount of principal and interest immediately due. Such being the contract, other sources of profit besides the initial commission will immediately be perceived. . . .

#### CHAPTER XII: THE HAND OF THE MONEY CHANGER IS ON US

From this array of testimony the reader need have no difficulty in determining for himself "how we got here." The hand of the money changer is upon us. Money dictates our financial policy; money controls the business of the country; money is despoiling the people. The author of *Twenty-eight Years in Wall Street* boasts that in the wonderful commercial and industrial development of the age, and which, he says, exceeds that of all past time since Herodotus wrote, Wall Street was a prime factor. He claims, and truthfully too, that the power of the men who assemble there to catch the driftwood of trade is greater than that of monarchies. He says they "move the money which controls the affairs of the world." We see plainly that behind all the commercial villainies of the time this power rests in placid security while the robbing of the toilers proceeds. These men of Wall Street, posing as missionaries conquering deserts and building republics, men piously assuming universal dominion, religiously dictating the financial policies of nations, moving in an atmosphere of radiant morals, self-appointed philosophers teaching honor and honesty to an ignorant world, these men of fabulous fortunes built upon the ruin of their fellows, are in fact the most audacious gamblers in Christendom. The poor fool who with a few dollars opens a faro bank or sets up a monte table in a country town is by common consent an outlaw; every man's face is set against him, and he is liable to arrest and imprisonment at any hour; he is denied admittance to the houses of people who are clean; even the street gamins pass him by as if he were a leper. No man so little esteemed, no man so thoroughly loathed and despised as this fellow, the common gambler. Yet here in the very heart of the best civilization on earth, at the very center of business life and activity, living in luxury and ease, renting costly pews in splendid churches and hiring their worshiping done; men petted and feasted by the rich and easy everywhere, with millions of dollars at their call, governments at their command, and a loyal people in their service; these men who produce nothing, who add not a dollar to the nation's wealth, who fatten on the failures of other men, whose acquisitions are only what their fel-

lows have lost; these men without conscience, who believe they are specially commissioned to prey upon the people, who act as a sort of continuing self-appointed civil-service commission to examine candidates for important offices before their names are submitted to the voters; this pampered aristocracy living off the wreckage of commerce, who rake in a railroad, a state, or a nation with equal complacency; these men "whose private dwellings are more splendid than the public buildings," and whose "happy homes" are the fruit of other men's toil; these men who boast of their patriotism in lending a few millions of their ill-gotten gains to the government of their imperiled country at "12 per cent" interest, when thousands of farmers and wage workers of all sorts and conditions were voluntarily in the army at risk of life and home—all without question as to pay; these men masquerading as philanthropists

and patriots while they are despoiling a nation and robbing the poor—these are the men who engineered the train that brought us where we are. They hold the bonds of nearly every State, county, city, and township in the Union; every railroad owes them more than it is worth. Corners in grain and other products of toil are the legitimate fruits of Wall Street methods. Every trust and combine made to rob the people had its origin in the example of Wall Street dealers. Touch any spring along the keyboard of commercial gambling and a Wall Street sign appears. This dangerous power which money gives is fast undermining the liberties of the people. It now has control of nearly half their homes, and is reaching out its clutching hands for the rest. This is the power we have to deal with. It is the giant evil of the time. Money is the great issue—all others pale into insignificance before this, the father of them.

### CHARLES H. OTKEN

POPULISM had its Southern supporters, too, among whom were to be found Charles H. Otken (1839- ?). And the reasons, again, were deeply based on agrarian discontent. The South was economically dependent, like the West, and, like the West, it suffered from high-cost credit and discriminatory practices by the railroads. Southern efforts to cope with such problems on the political level were complicated by the presence of the Negro, still not completely disfranchised.

To Southern observers, the section's prime difficulty was the crop-lien system. Storekeepers' advances against a lien on the next year's cotton crop had been the only credit feasible in the disorder and disintegration of the years immediately following the Civil War. But to a lawyer like Charles H. Otken, the method of crop financing which had been necessary and useful as an emergency measure had grown into an incubus. The Southern farmer pledged land and crop to the storekeeper who furnished the supplies needed to make that crop. Debts rarely were completely cleared at the end of a season with the result that the accumulation of unpaid bills put the planter into his creditor's power. The merchant shaped the entire agri-

cultural pattern to his own profit: it was the merchant-creditor who forced Southern farmers to grow cotton and buy food and stock at whatever prices he chose to demand. The crop-lien system thus imposed a sort of servitude, since the indebted farmer was obligated to deal with the merchant to whom he owed money.

Merchant credit and crop-liens bound the farmer, impoverished the section, and depleted the soil. But the system had even more perilous results, for the merchant might foreclose on his debtor. This entailed a concentration of land ownership and, worse still, an increase of cultivation by Negro share-croppers. This process of "abstracting the labor of the landlord" was giving the South's choicest lands to Negro cultivators.

That fact lay behind the unrest which was seething in the South. The example of the British West Indies, Otken finds, shows that "free Hamitic labor deteriorates in value year by year." Under the pernicious system of crop liens, the South was being brought to a similar state, for its white farmers were being ground between "the upper and nether millstones." There is only one remedy, Otken concludes in language that might be Hinton Helper's

[*q.v.*]: the Negroes must be returned to Africa or the "alarming increase of crime and vice" will hasten a "war of races" in the South.

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## *The Ills of the South*

BY CHARLES H. OTKEN

### CHAPTER III: THE LIEN LAW MACHINE

THE PROGRESS of Southern farmers to secure an ordinary competency is very slow. We refer to that class who own their land, from 100 to 2,000 or 3,000 acres. These landowners, provided with necessary live stock, are struggling to make a living. Capital amounting to \$500 and \$5,000, with personal labor added, is not remunerative on the farm. It pays no interest in a majority of instances. The investment itself is in danger. The product on thousands of farms has not been sufficient to pay the annual expense account. What then? A part of the property, real or personal, or both, must make up the difference between the income of the farm and its expenses. A good crop may cancel this balance, but this is a rare occurrence. The general rule is, the balance is increased until a part of the land, or all of it, adjusts the claim. It is history to-day, that farms of every dimension, all over the South, and the live stock, with the products raised on these farms, have barely enabled the occupants to live. In other words, in many instances the farms, horses, mules, and cattle, personal labor of the owners, and the general products raised, were required to pay the expense bill. Ten years made these men homeless. . . .

It is proposed to consider one of the general causes that have led to this impoverished condition of the Southern farmers. We believe there is no substantial consideration why affairs should remain as they are. There is a cause which underlies the evil. If it be real, remove it. We believe, with Pope: "Worth makes the man, and want of it the fellow." A higher value placed on integrity, a healthier moral sentiment in reference to right-doing, and the bestowal of confidence where it is deserved, would bring us back to the natural channels of trade. Cash business is, in the main, a necessity for the great body of the people. They can not conduct business on principles whose operations they do not understand, and which make success to secure a decent living well-nigh hopeless.

Deeds of trust have largely retarded the progress of the people. In one way or another they have hindered financial prosperity. The man who thus

involved himself, whether he gave a lien on his land, his live stock, his prospective crop, or on all combined, was bolted to a hard condition. In not a few cases, economy in buying was not the rule. The prices paid for his supplies were high—so high that he could not afford to make the purchases. Had cash trade been the rule, many articles which he bought on credit would not have been bought on a cash basis, unless the price was far different. Both considerations, the absence of economy and the high prices generally, made the expense account of this class greater than the income.

The inefficient and unmanageable negro labor, soon after the war, involved Southern farmers deeper in debt than they were involved in 1865. Lien laws were enacted in all the Southern States to help this class of men, as well as the negroes. The humane intent of these laws was to furnish a basis of credit. The man who had land could give a lien on that. Those who had live stock only could get their year's supplies on this security. Those who had neither land nor live stock could rent land and a mule, and could give a lien on the prospective crop to secure the landowner, and the merchant for the goods bought. This last lien enabled the negroes to be independent of the white man's supervision.

No legislator could foresee the practical operations of these laws. One of the first effects was to derange negro labor. He was desirous to be to himself; to get away from his former master; to feel that all the old relations of a former condition were destroyed forever. This was natural. Whether it was wise in the negro to be his own manager, and act upon his own responsibility, is another question. The negroes had everything to learn, and the disposition to learn and be directed was wanting. The truth is, the old master was the negro's best friend and safest adviser. Unfortunately, the negroes as a class were far more disposed to listen to the stranger than to the old master. . . .

The share plan was a favorite with the negroes. They were their own managers. The employer furnished the land, the mule, and necessary farm tools. He was responsible to the merchant for the

supplies furnished the share worker. He generally received half the cotton and corn made by the negro. The corn was in many cases less than the quantity furnished by the employer and consumed by the plow animal during the year.

How did this plan work? Generally speaking, it neither benefited the negro nor the white farmer. The reason is plain. As soon as the negro became his own manager, his industrial qualities declined in value. Besides, he generally managed affairs badly. We speak of them as a class, and not of the exceptional good and successful negro farmers—a small number at best. The negro under this plan gave little attention to the corn crop. He raised no meat. The result of the year's work proved that his half of the cotton was not sufficient to pay the store account. The balance due the merchant was paid by the employer. The employer, already in debt, and unable to pay his annual store account, in time lost part or all his land.

In various localities in every State, merchants came into possession of many farms. Some merchants had a strong hankering to become large landowners. It exalted them in the estimation of the world to be the possessors of 50,000, 100,000, and 500,000 acres of land. By indirect means, the aim was to get possession of land. What revelations this policy has to make, is in the future. Some merchants took land because they could not help themselves. Other merchants so conducted their business that the necessity to take land was firmly resisted.

Before the lien laws were enacted, and before they were used as a basis of credit, thousands of farmers in every Southern State had already largely increased their debt obligations to merchants. At that period in Southern history, had no lien laws been enacted, and had all credit business been reduced to one-tenth of what it was annually, the whole South would now be solvent and prosperous. It would have entailed some suffering, but no one would have starved. Such an economic policy would have been of untold value to the negroes.

Under the operations of this system of business and these laws, merchants in various localities became large landowners. It was quite natural that they should desire to utilize these lands. What they did, other men similarly situated would have done. These merchants became competitors with the farmer. Each desired to make the industry a success. There can be no question that the merchant, or any other class of men, had just as much right to own land and to cultivate that land, and to employ negro labor or white labor, as the farmer. On general principles it was a mistake.

Wherever this was done, bitter rivalry between the resident farmer and the merchant farmer of the town ensued. All things in love and war are fair, is a falsehood. Modes of procedure may be legally right, yet they are not always expedient. They may, in this instance, damage the common interest of the seller and the buyer.

The practical working of this new plan may be profitably illustrated. Mr. A., a merchant, owns one hundred farms. He proposes to cultivate these places on the share or rent plan. In no case, under these circumstances, does he employ hands for wages. The risk is too great, and supervision is impossible. In some instances land is sold, mostly to negroes; here and there to white men. He does a furnishing business. He provides them with plow stock and farming implements, if necessary; also with bread and meat and clothing. This will be severely allowed by the crop prospect. And this bread and meat supply, it is claimed by those who have the opportunity to know the facts, is less, in many instances, than the necessity of hunger demanded. The merchant is not to be blamed for refusing to furnish a man more than he is able to pay. The method of working farms in certain localities is under consideration, and not men. The purposes of men may be fair, yet the principles upon which they act may prove disastrous to the general welfare. These men—the one hundred—are the customers of this merchant. Liens of one sort or another bind these people to him. What they make on these farms is practically his. . . .

The results of these peculiar local circumstances born of lien laws may be briefly summed up:

1. One of the first effects of the attempt of merchant farmers entering into competition with resident farmers in the farming industry, is the difficulty on the part of the latter to secure labor. The merchant with a big store appeared, in the estimation of the negro, a rich man. The white farmer by comparison was poor, and himself dependent upon this rich merchant for supplies. The negro prefers the rich man to the poor man. The negro never had much regard for "poor white trash." The merchant had the vantage ground in securing labor. Practically, the merchant embarrassed the debt-ridden farmer. It was not so intended, but it operated in this way. . . .

2. The labor on merchant farms demoralized the labor on places of resident farmers. Discipline and regular industry among the negroes are, at best, declining in value. This plan introduced a new element of danger and confusion. The negroes on the merchants' places enjoyed and took great privileges. They worked when they pleased; they visited when they pleased; they rode to meetings

and everywhere else, by day and by night, when they pleased; and they enjoyed this lazy, slipshod mode of life to their hearts' content. It had the spice of Africa in it. It did not stop here. They taunted the negroes on places of resident farmers, who did not follow their idle and vagrant example, as "black niggers that didn't have sense enough to be free," and other expressions of scurrilous import. This conduct did the damage to the farming people in these localities.

The resident farmer saw in this state of things a big screw loose. Not a few had less than half the number of negroes that they could provide with land. The worst feature was, those they had were demoralized by the labor on merchant places. To control them was a difficult thing. To get work out of them was a task. The danger of losing even these inferior laborers was great. Patience was worn threadbare. Other resident farmers, with land and live stock sufficient for twenty and more hands, could not secure a single negro laborer. They folded their arms in black despair. The situation of these men, burdened with debt, the property of not a few covered with mortgages, with an insufficient complement of labor, and that not controllable, and in some cases no labor at all, was as blue as indigo. They were crippled in their work and their prospects by the very men into whose coffers they poured every dollar made on the farm. It is not charged that this was done intentionally. What was the remedy? Men were at sea without a compass. Ruin never before looked so much like ruin as these circumstances plainly prophesied to the farmers thus situated.

3. This purpose on the part of merchants to cultivate farms obtained under the credit system, and the lien laws of the country, waked up bitter memories. The application is to individuals. The effect refers to many. To illustrate: Mr. Henry, a farmer, was in debt to his merchant \$3,000. This debt was the result of balances carried over for years. The farm owned by Henry was cheap at \$5,000. After much discussion and hard feeling, the merchant bought the place for \$3,500. The old account and a small place valued at \$400 and \$100 cash closed the transaction. Thus ends this matter, but not so the consequences in the years to come.

Time passed on. The parents were dead, and the children were scattered in various parts of the country. Patrick, the younger son, occupied the little place received in exchange with the merchant's account for the old homestead. Mr. —, a near neighbor, incidentally remarked one day to a group of friends, that the Henry place cost in actual cash \$1,000. Be this as it may, Patrick, now a

married man, heard of the report. He was desirous to rent the place, and, if possible, buy it.

His father's merchant was still doing business in the same town. Patrick offered to rent it, so did Black John, one of the old Henry negroes. Eight bales of cotton was the rental. Patrick offered nine bales, but Black John got it for eight. Patrick was an energetic, intelligent young farmer. Such, in substance, was the information imparted to us.

The old homestead was on the same road, and a few miles distant from the little farm where Patrick lived. Here was material for thought. The legal aspect of the transaction cannot be questioned. But something is due to circumstances, to associations, to those tender ties that give aroma to life. "My mother's bedroom," said the young man, "is now occupied by father's carriage-driver. Had he but rented the place to any other man, white or black, I would not feel so outraged. I have good feeling for our old servant Black John; but I can not separate myself from the endearing associations of my parental home. The very mention of father, mother, brothers, and sisters calls up sacred memories, and these cluster about my birthplace. Why was my offer to rent the homestead so rudely rejected?" It is hoped that such cases are rare. The sympathy of the community was with that young man. The feelings of the people were smouldering. These are bitter memories.

4. Another effect showed itself in many deprecations. These tenants fared no better than other tenants in making a living—rather worse. As a class they were often hard pressed for food. In such case "mine and thine" were ignored. Shoats, sheep, young cattle, and poultry were common prey. The corncrib and the potato-bank, if accessible, were not sacred objects to a hungry stomach. Ten tenants, we were informed, representing 30 persons, made 30 bales of cotton and 500 bushels of corn. They raised no potatoes, or next to none, and no meat. Half of the cotton and corn belonged to the landowner. The remainder paid for the supplies furnished during the year. Fifty-two dollars will not suffice to buy food and clothing for three persons to each tenant on an average.

It is not meant that the condition of all tenants of this class was this bad, nor yet that that of the tenants with resident farmers was much better; but that this peculiar plan of renting land to negroes without supervision, means poor crops, especially food crops. And poor crops lead to stealing. Why should the people be deluded with the idea that this sort of management can promote the prosperity of the country? The poor negro is not benefited, and the foundation is laid for trouble.

5. Thievery among negroes, if not the cause, has been the occasion, of much violence. It is difficult to appreciate the situation. Honest men that work hard to make a living, and fail in so many instances to make ends meet, and then have the little they make, stolen, are certainly annoyed beyond endurance.

6. With these environments, the two hundred farmers have an uphill business, in these localities, at farming. If they were encouraged by sympathy and generous interest, unmixed with selfish considerations, it is firmly believed that the result would benefit them, the negroes, and the general trade. So much for the bad effects of lien laws in various localities. . . .

The credit system is a step generally toward lien laws. Either one enslaves; the latter intensifies the condition. Whenever the danger point is reached, these laws are sure to be invoked. Were these laws repealed, the furnishing business would soon come to a dead halt in thousands of cases. Economy and freedom would in a few years take the place of extravagance, credit prices, and slavery. Whatever kindness may be in these methods, it is dearly bought. It certainly does look, from all the experience of the past, that this plan of buying on long time, secured by liens, is the very best means to remain poor all the days of one's life. This method as a whole keeps a man poor, wrecks his peace of

mind, makes him old before his time, and destroys his independence. He can not trade where he pleases, if he has agreed to do business with a given merchant. Besides, in the course of years, he is bound to suffer more or less humiliation. If this is not a mean bondage, what is? When shall the delusion that this state of things is necessary, be broken? . . .

Under the treacherous operations of these lien laws, farmers involved themselves in debt, gave security on their estates when cotton was selling at 30, 25, 20, 15, and 10 cents per pound. They bought land, horses, and merchandise when the great Southern staple brought a high price. Everything else was high. Interest accumulated year by year. A steady pressure was kept on cotton production. Grain growing and meat raising were neglected. The increase of the cotton crop pressed down its price. Now, when cotton is down to 7 cents, the attempt to pay old debts incurred when the price of cotton ruled at 15, 12, and 10 cents, is an herculean task. Many farmers are hopelessly ruined. Who is responsible for this desperate state of affairs? Not the merchant nor the farmer, but this subtle relief device, the lien laws, and the annual credit supply business. This system brings sad experience to one class of men, and gold to another class.

## HENRY DEMAREST LLOYD

HENRY DEMAREST LLOYD (1849-1903) was a native New Yorker. Of pioneer Dissenting stock, Lloyd followed family patterns in fighting evil, though he chose to battle Tammany and the trusts rather than the simpler devil his father had challenged from the pulpit of a Dutch Reformed church. After being graduated from Columbia and then admitted to the bar, Lloyd made one of a group of young lawyers who helped defeat the Tweed Ring in 1871. Soon afterward, Lloyd left New York and the law for newspaper work in Chicago.

By 1881, his observations had crystallized into an *Atlantic* article attacking the Standard Oil Trust. His experience as a supporter of the accused in the Haymarket trials strengthened Lloyd's conviction that, somewhere along the way, the American system had been perverted to serve monopoly, not the common man.

In *Wealth against Commonwealth* (1894), Lloyd expands his *Atlantic* article which prefigures the work of the "muckrakers" of the next decade. Lloyd is less sensational in his approach than these, but all his work is characterized by the same passionate indignation against privilege and the same faith in the people.

The great problem of the time, according to Lloyd, is the growth of concentrated wealth. From state and congressional investigations and the records of many trials, Lloyd draws the material which supports his story of ruthless competition to establish monopoly. Though the oil industry is Lloyd's chief preoccupation, he notes the growth of trusts in many other fields and their links with the railroads, which are themselves being consolidated into a few noncompeting systems.

More than any other trust, Standard Oil

exists by virtue of railroad favoritism. It was a latecomer to the oil-producing field, Lloyd goes on, and it added nothing to the technological development of the industry. Other men perfected methods of refining and transporting oil; other men were forced to build pipe lines when the trust won control of the railroads. The great contributions of the trust have been the exaction of rebates, the manipulation of freight rates, and the devising of means for forcing its competitors out of business. The Oil Trust, Lloyd sums up, "was created in defiance of law, exists in contempt of the law, and in its living the law dies daily."

The rebate has been the main tool of the trust. With it, Standard Oil has not merely shipped its own oil more cheaply but it has levied toll on the shipments of its competitors as well. For the most part, it has held the public subjugated; but some communities have been able to fight back. The people of Columbus, Mississippi, actually maintained a three-year boycott against its effort to drive independent oil merchants from the field; and the people of Toledo, Ohio, defeated the trust's subsidiary monopoly in natural gas by successfully build-

ing a municipal plant to supply natural gas to themselves. These examples point the way toward hope, Lloyd declares. The people must realize that their battle is not only with business abuses, but with the whole pattern of business morals. Society must be reformed by the joint labor of associated individuals until democracy rules industry as well as the state.

In that conclusion, as well as in the methodical presentation of facts, Lloyd resembles his more famous successor in muckraking, Lincoln Steffens. Like Steffens, Lloyd championed unpopular causes—the Chicago anarchists; Debs's defense against the sentence for contempt of court; the election of Populist congressmen; compulsory arbitration on the New Zealand method; the striking coal miners of 1902—and like Steffens, Lloyd finally came to think that only the most radical political action could cope with the evils that were so plain to him. In the year of his death, Lloyd joined the Socialist party, but he was never active in its councils.

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## *Wealth against Commonwealth*

BY HENRY DEMAREST LLOYD

### CHAPTER I: "THERE ARE NONE"—"THEY ARE LEGION"

NATURE is rich; but everywhere man, the heir of nature, is poor. Never in this happy country or elsewhere—except in the Land of Miracle, where "they did all eat and were filled"—has there been enough of anything for the people. Never since time began have all the sons and daughters of men been all warm, and all filled, and all shod and roofed. Never yet have all the virgins, wise or foolish, been able to fill their lamps with oil.

The world, enriched by thousands of generations of toilers and thinkers, has reached a fertility which can give every human being a plenty undreamed of even in the Utopias. But between this plenty ripening on the boughs of our civilization and the people hungering for it step the "cor-

nerers," the syndicates, trusts, combinations, with the cry of "over-production"—too much of everything. Holding back the riches of earth, sea, and sky from their fellows who famish and freeze in the dark, they declare to them that there is too much light and warmth and food. They assert the right, for their private profit, to regulate the consumption by the people of the necessities of life, and to control production, not by the needs of humanity, but by the desires of a few for dividends. The coal syndicate thinks there is too much coal. There is too much iron, too much lumber, too much flour—for this or that syndicate.

The majority have never been able to buy enough of anything; but this minority have too much of everything to sell.

Liberty produces wealth, and wealth destroys liberty. "The splendid empire of Charles V.," says



Motley, "was erected upon the grave of liberty." Our bignesses, cities, factories, monopolies, fortunes, which are our empires, are the obesities of an age gluttonous beyond its powers of digestion. Mankind are crowding upon each other in the centres, and struggling to keep each other out of the feast set by the new sciences and the new fellowships. Our size has got beyond both our science and our conscience. The vision of the railroad stockholder is not far-sighted enough to see into the office of the General Manager; the people cannot reach across even a ward of a city to rule their rulers; Captains of Industry "do not know" whether the men in the ranks are dying from lack of food and shelter; we cannot clean our cities nor our politics; the locomotive has more manpower than all the ballot-boxes, and mill-wheels wear out the hearts of workers unable to keep up beating time to their whirl. If mankind had gone on pursuing the ideals of the fighter, the time would necessarily have come when there would have been only a few, then only one, and then none left. This is what we are witnessing in the world of livelihoods. Our ideals of livelihood are ideals of mutual deglutition. We are rapidly reaching the stage where in each province only a few are left; that is the key to our times. Beyond the deep is another deep. This era is but a passing phase in the evolution of industrial Cæsars, and these Cæsars will be of a new type—corporate Cæsars.

For those who like the perpetual motion of a debate in which neither of the disputants is looking at the same side of the shield, there are infinite satisfactions in the current controversy as to whether there is any such thing as "monopoly." "There are none," says one side. "They are legion," says the other. "The idea that there can be such a thing is absurd," says one, who with half a dozen associates controls the source, the price, the quality, the quantity of nine-tenths of a great necessary of life. But "There will soon be a trust for every production, and a master to fix the price for every necessity of life," said the Senator who framed the United States Anti-Trust Law. This difference as to facts is due to a difference in the definitions through which the facts are regarded. Those who say "there are none" hold with the Attorney-General of the United States and the decision he quotes from the highest Federal court which has yet passed on this question<sup>1</sup> that no one has a monopoly unless there is a "disability" or "restriction" imposed by law on all who would compete. A syndicate that had succeeded in bot-

ting for sale all the air of the earth would not have a monopoly in this view, unless there were on the statute-books a law forbidding every one else from selling air. No others could get air to sell; the people could not get air to breathe, but there would be no monopoly because there is no "legal restriction" on breathing or selling the atmosphere.

Excepting in the manufacture of postage-stamps, gold dollars, and a few other such cases of a "legal restriction," there are no monopolies according to this definition. It excludes the whole body of facts which the people include in their definition, and dismisses a great public question by a mere play on words. The other side of the shield was described by Judge Barrett, of the Supreme Court of New York. A monopoly he declared to be "any combination the tendency of which is to prevent competition in its broad and general sense, and to control and thus at will enhance prices to the detriment of the public. . . . Nor need it be permanent or complete. It is enough that it may be even temporarily and partially successful. The question in the end is, Does it inevitably tend to public injury?"<sup>2</sup>

Those who insist that "there are none" are the fortunate ones who came up to the shield on its golden side. But common usage agrees with the language of Judge Barrett, because it exactly fits a fact which presses on common people heavily, and will grow heavier before it grows lighter.

The committee of Congress investigating trusts in 1889 did not report any list of these combinations to control markets, "for the reason that new ones are constantly forming, and that old ones are constantly extending their relations so as to cover new branches of the business and invade new territories."

It is true that such a list, like a dictionary, would begin to be wrong the moment it began to appear. But though only an instantaneous photograph of the whirlwind, it would give an idea, to be gained in no other way, of a movement shadowing two hemispheres. In an incredible number of the necessities and luxuries of life, from meat to tombstones, some inner circle of the "fittest" has sought, and very often obtained, the sweet power which Judge Barrett found the sugar trust had: It "can close every refinery at will, close some and open others, limit the purchases of raw material (thus jeopardizing, and in a considerable degree controlling, its production), artificially limit the production of refined sugar, enhance the price to

<sup>2</sup> People of the State of New York *vs.* The North River Sugar Refining Company. Supreme Court of New York—at Circuit. (January 9, 1889). New York Senate Trusts, 1889, p. 278.



enrich themselves and their associates at the public expense, and depress the price when necessary to crush out and impoverish a foolhardy rival."

Corners are "acute" attacks of that which combinations exhibit as chronic. First a corner, then a pool, then a trust, has often been the genesis. The last stage, when the trust throws off the forms of combination and returns to the simpler dress of corporations, is already well along. Some of the "sympathetical co-operations" on record have no doubt ceased to exist. But that they should have been attempted is one of the signs of the time, and these attempts are repeated again and again until success is reached. . . .

Many thousands of millions of dollars are represented in these centralizations. It is a vast sum, and yet is but a minority of our wealth.

Laws against these combinations have been passed by Congress and by many of the States. There have been prosecutions under them by the State and Federal governments. The laws and the lawsuits have alike been futile.

In a few cases names and form of organization have been changed, in consequence of legal pursuit. The whiskey, sugar, and oil trusts had to hang out new signs. But the thing itself, the will and the power to control markets, livelihoods, and liberties; and the toleration of this by the public—this remains unimpaired; in truth, facilitated by the greater secrecy and compactness which have been the only results of the appeal to law. . . .

What we call Monopoly is Business at the end of its journey. The concentration of wealth, the wiping out of the middle classes, are other names for it. To get it is, in the world of affairs, the chief end of man.

There are no solitary truths, Goethe says, and monopoly—as the greatest business fact of our civilization, which gives to business what other ages gave to war and religion—is our greatest social, political, and moral fact.

The men and women who do the work of the world have the right to the floor. Everywhere they are rising to "a point of information." They want to know how our labor and the gifts of nature are being ordered by those whom our ideals and consent have made Captains of Industry over us; how it is that we, who profess the religion of the Golden Rule and the political economy of service for service, come to divide our produce into incalculable power and pleasure for a few, and partial existence for the many who are the fountains of these powers and pleasures. This book is an attempt to help the people answer these questions. It has been quarried out of official records, and it is a venture in realism in the world

of realities. Decisions of courts and of special tribunals like the Interstate Commerce Commission, verdicts of juries in civil and criminal cases, reports of committees of the State Legislatures and of Congress, oath-sworn testimony given in legal proceedings and in official inquiries, corrected by rebutting testimony and by cross-examination—such are the sources of information. . . .

To give the full and official history of numbers of these combinations, which are nearly identical in inspiration, method, and result, would be repetition. Only one of them, therefore, has been treated in full—the oil trust. It is the most successful of all the attempts to put gifts of nature, entire industries, and world markets under one hat. Its originators claim this precedence. It was, one of its spokesmen says, "the parent of the trust system."<sup>3</sup> It is the best illustration of a movement which is itself but an illustration of the spirit of the age.

#### CHAPTER XXXIII: THE SMOKELESS REBATE

With searching intelligence, indomitable will, and a conscience which makes religion, patriotism, and the domestic virtues but subordinate paragraphs in a ritual of money worship, the mercantile mind flies its air-line to business supremacy. That entirely modern social arrangement—the private ownership of public highways—has introduced a new weapon into business warfare which means universal dominion to him who will use it with an iron hand.

This weapon is the rebate, smokeless, noiseless, invisible, of extraordinary range, and the deadliest gun known to commercial warfare. It is not a lawful weapon. Like the explosive bullet, it is not recognized by the laws of war. It has to be used secretly. All the rates he got were a secret between himself and the railroads. "It has never been otherwise," testified one of the oil combination.<sup>1</sup> The Chevalier Bayard declared proudly, as he lay on his death-bed, that he had never given quarter to any one so degraded and unknighly as to use gunpowder. Every one would close in at once to destroy a market combatant who avowed that he employed this wicked projectile. . . .

"And in the actual practice of daily life," says Ruskin, "you will find that wherever there is secrecy, there is either guilt or danger." "When did you discover the fact that these rebates had been paid?" one of the victims was asked.

"We never discovered it as a fact until the testimony was taken in 1879. . . . We always suspected it; but we never knew of it of our per-

<sup>3</sup> *Combinations*, by S. C. T. Dodd, p. 19.

<sup>1</sup> Testimony, New York Assembly "Hepburn" Report, 1879, p. 2668.

sonal knowledge, and never would really have known it of our personal knowledge. . . . I had no idea of the iniquity that was going on."<sup>2</sup> . . .

Men who hunt their fellow-men with this concealed weapon always deny it, as they must. To use it has always been a sin, and has been made a crime in every civilized State. Under United States law it is, since 1887, an offence punishable with imprisonment in the penitentiary.<sup>3</sup> Moral ideals are not born in legislatures. When an act attains by a law the distinction of being made a crime, it is already well on its way to extinction. It is made infamous by law, because it has already become infamous before the conscience and honor of men. It was not the prohibition of highway privilege by the Constitution of Pennsylvania or the laws of the United States which made the rebate an iniquity. This legal volley is but a salute to the established conscience. . . .

One of the successful men disposed of the evidence that these powers had been so used by styling it before the committee of Congress of 1888 as the "worst balderdash," and before the New York Legislative Committee of 1888 as "irresponsible newspaper statements," "a malignity and mendacity that is little short of devilishness." The secretary of the oil trust waved it away as "all this newspaper talk and flurry." The president knows nothing about the existence of such privileges, except that he has "heard much of it in the papers." And yet another of the trust in the *North American Review* of February, 1883, similarly describes the accusation as "uncontradicted calumny," to which, he regrets to say, "several respectable journals and magazines lent themselves."

After taking 3700 pages of evidence and sitting for months, the committee of 1879 of the New York Legislature said in their report: "The history of this corporation is a unique illustration of the possible outgrowth of the present system of railroad management in giving preferential rates, and also showing the colossal proportions to which monopoly can grow under the laws of this country."<sup>4</sup> . . . The parties whom they have driven to the wall have had ample capital and equal ability in the prosecution of their business in all things save their ability to acquire facilities for transportation."<sup>5</sup>

The committee of the Ohio Legislature which took the evidence of the treatment of the Marietta

independents by the railroads is, so far as the author knows, the only body of all the legislative and judicial tribunals that have been investigating for the past thirty years which has found the relations of the railroads and the oil combination to be proper. It used the words "public," "uniform," "in accordance with law," "equitable," "no special discriminations or privileges" to describe the conduct of the common carriers in that case. But in doing so it had to except from these exculpations the railroad which originated the attack on the independent refiners, and the rates of which controlled the others, as it was the initial road. It had also to admit that the oil combination had received "better rates," but defended them on the ground that its shipments were larger. These two exceptions are doors wide enough to admit every possibility of the rebate. The Secretary of State for Internal Affairs of Pennsylvania made an investigation in 1878 on the complaint of citizens. He reported to the Attorney-General that no case had been made out "beyond the ordinary province of individual redress." He was hung in effigy by the citizens, and the evidence he took remains, like that of the Ohio Committee of 1879, a valuable repository of facts from which students can draw their own conclusions.

More than any others the wrongs of the oil industry provoked the investigations by Congress from 1872 to 1887, and caused the establishment of the Interstate Commerce Commission, and more than any others they have claimed the attention of the new law and the new court. The cases brought before it cover the oil business on practically every road of any importance in the United States—in New England, the Middle States, the West, the South, the Pacific coast; on the great East and West trunk roads—the Pennsylvania, the Erie, the Baltimore and Ohio, the New York Central, and all their allied lines; on the transcontinental lines—the Union Pacific, the Central Pacific, the Southern Pacific; on the steamship and railroad association controlling the South and Southwest. They show that from ocean to ocean, and from the Gulf of St. Lawrence to the Gulf of Mexico, wherever the American citizen seeks an opening in this industry, he finds it, like the deer forests and grouse moors of the old country, protected by game-keepers against him and the common herd. The terms in which the commission have described the preferences given the oil combination are not ambiguous: "Great difference in rates," "unjust discrimination," "intentional disregard of rights," "unexcused," "a vast discrepancy,"

<sup>2</sup> Testimony, Trusts, Congress, 1888, pp. 215, 223, 226.

<sup>3</sup> Interstate Commerce Law, sec. 10.

<sup>4</sup> New York Assembly "Hepburn" Report, 1879, pp. 40-41.

<sup>5</sup> New York Assembly "Hepburn" Report, 1879, p. 44.

"enormous," "illegal," "excessive,"<sup>6</sup> "extraordinary," "forbidden by the act to regulate commerce,"<sup>7</sup> "so obvious and palpable a discrimination that no discussion of it is necessary," "wholly indefensible," "patent and provoking discriminations for which no rational excuse is suggested," "obnoxious," "disparity . . . absurd and inexcusable," "gross disproportions and inequalities,"<sup>8</sup> "long practised," "the most unjust and injurious discrimination . . . and this discrimination inured mostly to the benefit of one powerful combination."<sup>9</sup>

This was what the Interstate Commerce Commission found all along the record from 1887 to 1893. . . .

In the United States the processes of business feudalization are moving more rapidly to the end than in any other country. In Chicago, the youngest of the great cities of the youngest of the great nations, there are fewer wholesale dry-goods stores in 1894 for a population of 1,600,000 than there were in 1860 for 112,172. In almost every one of the meteoric careers by which a few men in each trade are rising to supreme wealth, it will generally be found that to some privilege on the railed highways, accomplished by the rebate, is due the part of their rise which is extraordinary. A few cases of great wealth from the increased value of land, a few from remarkable inventions like the sewing-machine, are only exceptions.

From using railroad power to give better rates to the larger man, it was an easy step to using it to make a favorite first a larger man, then the largest man, and finally the only man in the business. In meat and cattle we see men rising from poverty to great wealth. From being competitors, like other men, in the scramble, they get into the comfortable seat of control of the prices at which the farmer must sell cattle, and at which the people must buy meat.<sup>10</sup> Many other men had thrift, sobriety, industry, but only these had the rebate, and so only these are the "fittest in the struggle for existence." We find a merchant prince of the last

<sup>6</sup> *Rice vs. Louisville and Nashville Railroad et al.* Interstate Commerce Commission Reports, vol. i., p. 722. Trusts, Congress, 1888, pp. 675-84.

<sup>7</sup> *Scofield vs. Lake Shore and Michigan Southern Railroad.* Interstate Commerce Commission Reports, vol. ii., p. 90.

<sup>8</sup> *Rice, Robinson and Witherop vs. Western New York and Pennsylvania Railroad et al.* Interstate Commerce Commission Reports, vol. iv., p. 131.

<sup>9</sup> Same.

<sup>10</sup> Testimony, New York Assembly "Hepburn" Report, 1879, pp. 397, 781, 825, 924, 1383. United States Senate Report on Meat Products, p. 23.

generation in New York gathering into his hands a share of the dry-goods business of the country which appears entirely disproportionate to his ability and energy, great though these be. Is his secret a brain so much larger than his competitors' brains as his business is greater than theirs? . . .

The officials of the Pennsylvania Railroad, by the use of rebates, handed over the State of Pennsylvania to three coal-dealers, each of whom had his territory, and was supreme in it, as would-be competitors found out when they undertook to ship coal into his market. They made a similar division of the iron and steel business. The rebate is the golden-rule of the "gospel of wealth." We have already seen that the secret of the few corporations which have become the owners of almost every acre of the anthracite coal of Pennsylvania was the rebate.

Along one of the most important lines out of Chicago grain dealers who had been buying and selling in an open market, building elevators, investing capital and life, found five years ago market and railroad and livelihood suddenly closed to them, and the work of thirty years brought to an untimely end. The United States Interstate Commerce Commission, and the United States District Attorneys co-operating with it, broke down in the attempt to compel the railroad men who gave these privileges of transportation, or the business men who received them, to testify or to produce their books. The United States grand-jury in Chicago, in December, 1890, proceeded against the shippers and the railroad men. All of them refused to tell the rates given or received, or to produce their books.

Why do you refuse to answer? they were asked.

Because to do so would incriminate us.

Here, too, would-be successful men have gone gunning with the smokeless rebate for control of the wheat and corn and all the produce of the American farmer. Grain is fated to go the way that oil, hard coal, cattle, and meat have already gone. The farmer may remain the nominal owner of his farm under these circumstances, but he will be real owner of nothing but the piece of paper title.

First the product of the farm; then the farm. In America rises the shadow of a coming land-ownership more concentrated, more cruel, with the impersonal cruelty of corporate anonymity, than any the world has yet seen. . . .

This is what is going on to-day in the "division of property" in America. Our society is woven together by the steam shuttle that moves between its farms and dinner-tables, its cotton-fields and fac-

tories, thousands of miles apart, and the shuttle is crooked. Out of \$800,000,000 paid yearly in this country for the carriage of freight, it was estimated in 1888, by one who knew, that \$50,000,000 to \$100,000,000 goes to favored shippers.<sup>11</sup> As the result of personal examination made as an expert for stockholders, he declared that one of the great trunk lines had in the last twenty years thus diverted to favorites of the managers \$100,000,000 of the money of the stockholders. Besides his yachts and trotters, every Captain of Industry worth talking about keeps his stud of railway presidents and general freight agents.

Public opinion, as yet only in the gristle in these new questions, turns upon first one and then another as the author of its troubles—the soulless corporation, the combination of corporations, railroad oppression, or what not. But the corporation is merely a cover, the combination of corporations an advantage, the private ownership of public highways an opportunity, and the rebate its perfect tool. The real actors are men; the real instrument, the control of their fellows by wealth, and the mainspring of the evil is the morals and economics which cipher that brothers produce wealth when they are only cheating each other out of birthrights.

The success of the same men in Europe shows

<sup>11</sup> Franklin B. Gowen, before the United States Senate Interstate Commerce Committee, March, 1888.

that railroad discrimination is not the essence of their power, though it has in America been the chief instrument. By their wealth and their willingness to use it in their way they have become supreme. Supreme even where, as in England and Germany, they had no such unjust and crushing preference on the highways as in America. Back of highway privilege, back of money power, back of trade supremacy gained by these two means must be reckoned, as the essence of this phenomenon, the morality—our morality—which not only allows but encourages men to do each other to death, provided only the weapon be a bargain and the arena a market. "Everything shall not go to market," says Emerson; but everything does go to market. The millionaire is the modern hero, says the *New York Evening Post*. The men who have found in the rebate the secret of business success—and there are more of them than the public guesses—have only extended a fiercer hand to the results all were aiming at. They have used the smokeless rebate because it was the best gun. But if that had not been ready to their hand, they would have taken the next best. The course of conquest might have been slower, but, unless checked by moral interventions, it would have reached the same end. If society is founded on the idea that property belongs to the strongest, these will sooner or later get all the property, by bargains or by battles according to "the spirit of the age." . . .

## IGNATIUS DONNELLY

THESE GRIEVANCES against America were summarized in an indignant and defiant manifesto—the Platform of the People's party of 1892. It was the work of Ignatius Donnelly (1831-1901) who was one of the most colorful of the Western leaders of the period.

Donnelly's parents had come from Ireland to Philadelphia in the early years of the century and had brought up their young son to the law. Donnelly himself moved to Minnesota in the fifties and left legal practice to speculate in land. The panic of 1857 brought ruin to his schemes and turned his interest from town lots to farming. He joined the new Republican party, served in Congress from 1863 to 1869, worked for land grants to the Minnesota railroads, and grew up with his section.

In the early seventies, Donnelly left the Republican party. He joined the Liberal Republican movement, which tried to defeat Grant with Horace Greeley, and then cast in his lot with the Grangers and the Greenbackers. But political lost causes were not enough to enlist his full interest and energies; he also engaged in literary lost causes. In the eighties, he wrote *The Great Cryptogram*, in which he proved not only that Bacon wrote the plays of Shakespeare but that he wove into them a complete account of the life and ill doings of the man who was credited with his achievement. By 1887, Donnelly was again in politics, this time serving in the Minnesota Legislature as a representative of the Farmers' Alliance movement.

In the years when Donnelly was working to

help unite the various agrarian groups on a single platform, he was writing his striking propaganda novels, *The Golden Bottle* and *Caesar's Column*. In the first, Donnelly tells the story of a Kansas farm youth whose appeal to heaven is answered with a magic vial. Its contents can turn iron into gold. Thus fortified, Ephraim Benezet saves his father's farm and his Kansas county from usurious mortgage owners. He proceeds to conquer first the United States—when he is elected President against the opposition of the “interests”—and then the earth. The world's last battle is fought between President Benezet and the Czar of Russia; thereafter, peace, plenty, low interest, and the green-belt town prevail and man achieves Utopia.

*Caesar's Column* is a grimmer story. The year of the novel is 1988. Plutocracy has achieved complete victory. Under the forms of republicanism and constitutional monarchy, finance capital rules the world and maintains its power by a police force which uses dirigibles from which are dropped explosive bombs and “a subtle poison which rolls steadily forward, killing all who breathe it.” But the plutocracy has not counted on love or the power

of conspiracy. A wealthy young man, whose father has been unjustly imprisoned, becomes leader in a triumvirate of plotters who succeed in organizing a world-wide society of avengers. The youth buys off the plutocracy's police and, on the day of revolt, the bombs drop not on the revolutionaries but on the soldiers sent out to crush them. Destruction sweeps over the world, and the last monument of Western civilization is “Caesar's Column,” a huge pyramid of the heads of the plutocrats, severed and sheathed in a concrete shell.

The social philosophy of Donnelly's novels is represented in the preamble and in many of the specific demands of the Populist platform of 1892. When spokesmen for the Northern and Southern Farmers' Alliances met at Omaha, they decided, after long negotiation, to join forces and enter the presidential campaign of 1892 as an independent party. The preamble to their platform was written by Ignatius Donnelly, as has been noted, and its flamboyant rhetoric represents his thinking about America as well as the sentiments of many of the Populists.

The selection here reprinted is taken from contemporary newspapers.

## *People's Party Platform of 1892*

BY IGNATIUS DONNELLY

ASSEMBLED upon the 116th anniversary of the Declaration of Independence, the People's party of America, in their first national convention, invoking upon their action the blessing of Almighty God, puts forth, in the name and on behalf of the people of this country, the following preamble and declaration of principles:

The conditions which surround us best justify our co-operation: we meet in the midst of a nation brought to the verge of moral, political, and material ruin. Corruption dominates the ballot-box, the legislatures, the Congress, and touches even the ermine of the bench. The people are demoralized; most of the states have been compelled to isolate the voters at the polling places to prevent universal intimidation or bribery. The newspapers are largely subsidized or muzzled, public opinion silenced, business prostrated, our

homes covered with mortgages, labor impoverished, and the land concentrating in the hands of the capitalists. The urban workmen are denied the right of organization for self-protection; imported pauperized labor beats down their wages, a hireling standing army, unrecognized by our laws, is established to shoot them down, and they are rapidly degenerating into European conditions. The fruits of the toil of millions are boldly stolen to build up colossal fortunes for a few, unprecedented in the history of mankind; and the possessors of these, in turn, despise the republic and endanger liberty. From the same prolific womb of governmental injustice we breed the two great classes—tramps and millionaires.

The national power to create money is appropriated to enrich bondholders; a vast public debt payable in legal-tender currency has been funded

into gold-bearing bonds, thereby adding millions to the burdens of the people.

Silver, which has been accepted as coin since the dawn of history, has been demonetized, to add to the purchasing power of gold by decreasing the value of all forms of property as well as human labor, and the supply of currency is purposely abridged to fatten usurers, bankrupt enterprise, and enslave industry. A vast conspiracy against mankind has been organized on two continents, and it is rapidly taking possession of the world. If not met and overthrown at once, it forebodes terrible social convulsions, the destruction of civilization or the establishment of an absolute despotism.

We have witnessed for more than a quarter of a century the struggles of the two great political parties for power and plunder, while grievous wrongs have been inflicted upon the suffering people. We charge that the controlling influences dominating both these parties have permitted the existing dreadful conditions to develop without serious effort to prevent or restrain them. Neither do they now promise us any substantial reform. They have agreed together to ignore, in the coming campaign, every issue but one. They propose to drown the outcries of a plundered people with the uproar of a sham battle over the tariff, so that capitalists, corporations, national banks, rings, trusts, watered stock, the demonetization of silver, and the oppressions of the usurers may all be lost sight of. They propose to sacrifice our homes, lives, and children on the altar of Mammon; to destroy the multitude in order to secure corruption funds from the millionaires.

Assembled on the anniversary of the birthday of the nation, and filled with the spirit of the grand general chief who established our independence, we seek to restore the government of the republic to the hands of "the plain people," with whose class it originated. We assert our purposes to be identical with the purposes of the National Constitution, "to form a more perfect union and establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty for ourselves and our posterity."

We declare that this republic can only endure as a free government while built upon the love of the whole people for each other and for the nation; that it cannot be pinned together by bayonets; that the civil war is over, and that every passion and resentment which grew out of it must die with it, and that we must be in fact, as we are in name, one united brotherhood.

Our country finds itself confronted by conditions for which there is no precedent in the his-

tory of the world. Our annual agricultural productions amount to billions of dollars in value, which must within a few weeks or months be exchanged for billions of dollars of commodities consumed in their production; the existing currency supply is wholly inadequate to make this exchange. The results are falling prices, the formation of combines and rings, the impoverishment of the producing class. We pledge ourselves that, if given power, we will labor to correct these evils by wise and reasonable legislation in accordance with the terms of our platform.

We believe that the powers of government—in other words, of the people—should be expanded (as in the case of the postal service) as rapidly and as far as the good sense of an intelligent people and the teachings of experience shall justify, to the end that oppression, injustice, and poverty shall eventually cease in the land.

While our sympathies as a party of reform are naturally upon the side of every proposition which will tend to make men intelligent, virtuous, and temperate, we nevertheless regard these questions, important as they are, as secondary to the great issues now pressing for solution, and upon which not only our individual prosperity, but the very existence of free institutions depend; and we ask all men to first help us to determine whether we are to have a republic to administer, before we differ as to the conditions upon which it is to be administered, believing that the forces of reform this day organized will never cease to move forward until every wrong is righted and equal rights and equal privileges securely established for all the men and women of this country. We declare, therefore—

#### UNION OF THE PEOPLE

1. That the union of the labor forces of the United States this day consummated shall be permanent and perpetual: may its spirit enter into all hearts for the salvation of the republic and the uplifting of mankind!

2. Wealth belongs to him who creates it, and every dollar taken from industry without an equivalent is robbery. "If any will not work, neither shall he eat." The interests of rural and civic labor are the same; their enemies are identical.

3. We believe that the time has come when the railroad corporations will either own the people or the people must own the railroads; and should the government enter upon the work of owning and managing all railroads, we should favor an amendment to the Constitution by which all persons engaged in the government service shall be

placed under a civil-service regulation of the most rigid character, so as to prevent the increase of the power of the national administration by the use of such additional government employees.

#### THE QUESTION OF FINANCE

We demand a national currency, safe, sound, and flexible, issued by the general government only, a full legal tender for all debts, public and private, and that without the use of banking corporations; a just, equitable, and efficient means of distribution direct to the people, at a tax not to exceed two per cent. per annum, to be provided as set forth in the sub-treasury plan of the Farmers' Alliance, or a better system; also, by payments in discharge of its obligations for public improvements.

We demand free and unlimited coinage of silver and gold at the present legal ratio of sixteen to one.

We demand that the amount of circulating medium be speedily increased to not less than \$50 per capita.

We demand a graduated income-tax.

We believe that the money of the country should be kept as much as possible in the hands of the people; and hence we demand that all state and national issues shall be limited to the necessary expenses of the government, economically and honestly administered.

We demand that postal savings-banks be established by the government for the safe deposit of the earnings of the people and to facilitate exchange.

#### CONTROL OF TRANSPORTATION

Transportation being a means of exchange and a public necessity, the government should own and operate the railroads in the interest of the people.

The telegraph and telephone, like the post-office system, being a necessity for the transmission of news, should be owned and operated by the government in the interest of the people.

#### RECLAIMING THE LAND

The land, including all the natural sources of wealth, is the heritage of the people, and should not be monopolized for speculative purposes, and alien ownership of land should be prohibited. All

land now held by railroads and other corporations in excess of their actual needs, and all lands now owned by aliens, should be reclaimed by the government and held for actual settlers only.

*Resolved*, 1. That we demand a free ballot and a fair count in all elections, and pledge ourselves to secure it to every legal voter, without federal intervention, through the adoption by the states of the unperturbed Australian secret ballot system.

*Resolved*, 2. That the revenue derived from a graduated income-tax should be applied to the reduction of the burdens of taxation now levied upon the domestic industries of this country.

*Resolved*, 3. That we pledge our support to fair and liberal pensions to ex-Union soldiers and sailors.

*Resolved*, 4. That we condemn the fallacy of protecting American labor under the present system, which opens our ports to the pauper and criminal classes of the world and crowds out our wage-earners, and we denounce the present ineffective law against contract labor, and demand the further restriction of undesirable immigration.

*Resolved*, 5. That we cordially sympathize with the efforts of organized workingmen to shorten the hours of labor, and demand a rigid enforcement of the existing eight-hour law on government work, and ask that a penalty clause be added to the said law.

*Resolved*, 6. That we regard the maintenance of a large standing army of mercenaries, known as the Pinkerton system, as a menace to our liberties, and we demand its abolition; and we condemn the recent invasion of the Territory of Wyoming by the hired assassins of plutocracy, assisted by federal officers.

*Resolved*, 7. That we commend to the thoughtful consideration of the people and the reform press, the legislative system known as the initiative and referendum.

*Resolved*, 8. That we favor a constitutional provision limiting the office of President and Vice-President to one term, and providing for the election of senators of the United States by a direct vote of the people.

*Resolved*, 9. That we oppose any subsidy or national aid to any private corporation for any purpose.



## BENJAMIN R. TILLMAN

IN ONE SENSE, Otken's attack on the crop-lien system may be taken as an expression of the revolt against the dominant influence of the towns in Southern politics. Merchants were townsmen, by and large; they resisted the farmers' demand that rural interests be given greater consideration by state governments; and they permitted the Negroes to vote in order to keep the Southern white masses in subjection. In South Carolina, for example, though the up country had the bulk of the white voting population, the numerous small seaboard counties gave the low country a disproportionate political influence. State office was concentrated in the hands of the ex-Confederate leaders who had restored white rule in the seventies and whose leaders were becoming rich as a result of their alliance with Northern railroading and industrial interests.

A new force rose in opposition during the eighties. Men like Benjamin R. Tillman of South Carolina challenged the old leaders and organized the upland farmers to eliminate the Negro from politics and seize the reins of power for the white masses. In this way, white supremacy would be permanently assured in the South.

Benjamin Ryan Tillman (1847-1918) was the youngest son of a South Carolina family of moderate position. Youth and an abscessed eye had prevented Tillman's serving in the Confederate army but he proved his capacity for combat in the turbulencies of the late seventies. After a period of legal practice, Tillman attempted to break the local aristocracy's hold on the politics of his state; but low country preponderance at party conventions defeated him. Thenceforth, Tillman set himself the task of creating an organization of farmers strong enough to capture and hold the Democratic party of South Carolina.

By 1890, Tillman's Wool Hat Boys had

elected him governor. In his new post, Tillman pushed for the reform program he had been advocating during the past decade. He organized a centralized tax administration; secured an increased royalty from the companies developing the South Carolina phosphate deposits; and diverted funds from an overstaffed State University to agricultural training schools and a normal school for girls. The great issue of Tillman's first administration, however, was his proposal for a convention to revise the State Constitution, reapportion the state's voting districts, and secure the disfranchisement of the Negro without imposing similar standards of literacy on white voters.

Tillman was returned to office in 1892 and obtained legislative consent for summoning a constitutional convention which would not be required to submit the results of its deliberations to the people. Though he was elected to the United States Senate in 1894, Tillman fought for his convention, succeeded in excluding Negroes from voting for its members, and helped carry the clauses that nullified the Fifteenth Amendment. By the inclusion of a so-called "understanding clause" in its new Constitution, South Carolina had perfected a device for keeping the Negroes away from the polls. By this means, white supremacy was finally reestablished in South Carolina—and in other Southern states as well (although Mississippi had been the first to act in 1890)—and the white masses, under the leadership frequently of ambitious and unscrupulous men, took control of the Democratic party. The new Constitution, which still governs South Carolina, was installed January 1, 1896.

The selection here reprinted is from the *Journal of Proceedings* of the South Carolina Constitutional Convention of 1895 (Columbia, S. C., 1895).



*Journal of the Proceedings of the South Carolina  
Constitutional Convention*

SENATOR TILLMAN: Mr President and Gentlemen of the Convention. . . . It has been well said that this is a momentous issue, that this Convention of the people of the State to deal with the question of suffrage will mark an epoch in our history. I may further say that the question of suffrage and its wise regulation is the sole cause of our being here. The prosperity, happiness and progress of this people depend upon its wise solution. The very life of the State is involved in the wisdom or the unwisdom of our action. Why do I say this? When the Southern Cross went down in battle and the hopes of the Southern Confederacy were laid in the grave of the "Lost Cause," when we had struggled for four years with a bravery and patriotism and self-sacrifice unparalleled in history for the right of self-government, and for our rights under the Constitution as we conceived and understood them, what came to pass? President Johnson appointed a Provisional Governor, and ordered a Constitutional Convention to be convened to prepare the way for the State of South Carolina to re-enter the Union. That Convention assembled and adopted a Constitution. Under it legislation was enacted; the "Black Code," of which we have heard so much, was part of that legislation. Whatever may be said as to that "Black Code," it gave the Black Republicans, Thad. Stevens and his gang, excuse for their reconstruction devilry. It was the only pretense they wanted, because these hell hounds, actuated by hate for the Southern people, were determined upon degrading us to the lowest level possible, and they had right at hand an instrument which the most fertile imagination, if it had been given a thousand years to concoct a scheme of revenge, could not have surpassed it. It was the presence among us of our ex-slaves set free by the results of the war.

Actuated solely by the purpose to perpetuate the rule of the Republican party, and with the hellish purpose of venting their rage and hatred upon a conquered people, they passed the Reconstruction Acts, and came very near impeaching Johnson because he had been moving forward contrary to their will. And then they put in motion the forces of the army, which were already here to depose the civil government which we had established, to overthrow the fabric which we were trying to re-erect, and to put in its place the rule of the negro over the Anglo-Saxon.

Canby, the Major General in charge of this department, issued his orders calling for the election of delegates to a Constitutional Convention. And in effect he said to the Southern white men: "Attend to your material interests, the army will take care of your government; your help is not wanted, nor will your interference be tolerated"—and the radical ring-streaked and striped carpet-bagger Convention of 1868 assembled. The Constitution which they gave us was submitted to the vote of the people—to the negroes, in fact. All our then leaders, without exception, took the position that this action on the part of Congress and the United States army was outside of the Constitution and must fall. They advised our Southern white men to remain at home and pay no attention to it; that it would drop of its own illegality; and the consequence was no white man participated in the election to ratify the Constitution. It was pushed through at the polls, guarded all over the State by bayonets, and we were placed under the rule of our ex-slaves. A Legislature was elected under that Constitution, and an ex-army officer, Robert K. Scott, was elected Governor. The State House was filled with the minions of Black Republicanism, officered and led by white thieves, who came here for the express purpose of getting rich at the expense of our impoverished and fallen people. . . .

Now, I have alluded to the fact of this villainy, anarchy, misrule and robbery, and I cannot, in any words I possess, paint it. There is no man on this floor living in the country who dared during that dark period to leave his fireside without dread that when he returned he would find some harm to his family; and he dared not go forth without being armed, fearful of robbery. The sky was lit almost every night by the glare of burning dwellings and gin houses. Our Courts of justice were filled with bribe-takers, and the Judges themselves were not free from bribery. How did it come about, and who must bear the blame? We are told the negroes didn't do it. "Oh, we didn't do it," they say. [Addressing the negro delegates]. You blindly followed and obeyed the orders of the Freedmen's Bureau and the Union League and ignored the appeals of your former masters, who treated you with kindness and furnished you with your daily bread. I myself can testify that appeal after appeal was made by me, and by almost every

white man in this State, with the negroes with whom he came in contact on his plantation: "Stop! come back! help us free ourselves from this burden!" But every one of you, almost up to 1876, blindly followed wherever these white thieves ordered. Was it negro government? The negroes furnished the ballots, and that is what we are dealing with. The negroes put the little pieces of paper in the box that gave the commission to these white scoundrels who were their leaders and the men who debauched them; and this must be our justification, our vindication and our excuse to the world that we are met in Convention openly, boldly, without any pretense of secrecy, to announce that it is our purpose, as far as we may, without coming in conflict with the United States Constitution, to put such safeguards around this ballot in future, to so restrict the suffrage and circumscribe it, that this infamy can never come about again.

The negroes were the tools of designing white men, I acknowledge—participators and willing tools. The poor, ignorant cotton field hand, who never reaped any advantage, nor saw anything except a pistol, blindly followed like sheep wherever their black and white leaders told them to go, voted unanimously every time for the Republican ticket during that dark period, and these results were achieved solely and wholly by reason of the ballot being in the hands of such cattle. Is the danger gone? No. How did we recover our liberty? By fraud and violence. We tried to overcome the thirty thousand majority by honest methods, which was a mathematical impossibility. After we had borne these indignities for eight years life became worthless under such conditions. Under the leadership and inspiration of Mart Gary—because he planned and brought about the Straightout movement of '76—in spite of the low country fighting on this floor against those who opposed putting Chamberlain forward as a compromise candidate—under his leadership and through his magnificent courage (for Edgefield alone gave us the excuse to claim the Governorship), we won the fight. We had a legal right by her majority, but then Grant's bayonets were here to prop Chamberlain in the Governor's chair. We were held in suspense from the meeting of the General Assembly in November until Hayes's title had been settled by the Electoral Commission in March. The whole State was like a powder magazine. The people had sworn to have their liberties or to die.

How did we bring it about? Every white man sunk his personal feelings and ambitions. The white people of the State, illustrating our glorious

motto, "Ready with their lives and fortunes," came together as one. By fraud and violence, if you please, we threw it off. In 1878 we had to resort to more fraud and violence, and so again in 1880. Then the Registration Law and eight-box system was evolved from the superior intelligence of the white man to check and control this surging, muddy stream of ignorance and to tell it to back, and since then we have carried our elections without resort to any illegal methods, simply because the whites were united. If we were to remain united it would still be desirable that we should guard against the possibility of this flood, which is now dammed up, breaking loose; or, like the viper that is asleep, only to be warmed into life again and sting us whenever some more white rascals, native or foreign, come here and mobilize the ignorant blacks. Therefore, the only thing we can do as patriots and as statesmen is to take from them every ballot that we can under the laws of our national government.

I read a moment ago from the report of the Committee that good government can only rest on intelligence and good morals. I will go further and say that good government and the very life of republics rest on virtue, patriotism and intelligence. The chief amongst the three is intelligence. It has been said, and it must be apparent to any one who thinks, that even if we restrict the suffrage as we propose, that with 40,000 Conservatives and 40,000 Reformers, divided and striving for mastery, and 15,000 illiterate white men disfranchised, that the negroes are still here in sufficient numbers to control us. Are we so besotted, so forgetful and oblivious of the record which I have just read to you? Have our memories grown so callous that we as a white race—kinsmen, brothers, common inheritors of the glorious past and of the freedom transmitted to us by our forefathers—have we got to the point where we cannot unite as brothers, throwing aside the petty bickerings and animosities that have been engendered in the last five years, and, without regard to personal ambition or partisan advantage to anybody, can we not provide so that we will not have to appeal to these people as arbiters of our fate? Can we not rise to the necessities of the occasion and put into this Constitution such an Article in reference to suffrage as will guarantee, as far as the law can guarantee, to future generations that they shall have the blessings of Anglo-Saxon civilization and liberty in this State? How pitiable, how puerile, how ineffably, unutterably contemptible appear the personal ambitions and petty spite of men alongside of this grand and glorious purpose!

## REPORTS OF STANDING COMMITTEES

MR. B. R. TILLMAN, for the Committee on Suffrage, submitted the following report, which was read the first time and ordered for consideration to-morrow:

## REPORT OF THE COMMITTEE ON RIGHT OF SUFFRAGE

*To the President and Members of the Convention:*

The Committee on Right of Suffrage respectfully report the accompanying document, consisting of fifteen Sections, and recommend its adoption as Article — of the Constitution.

All of which is respectfully submitted.

B. R. TILLMAN, Chairman.

*Article —. Right of Suffrage*

Section 1. All elections by the people shall be by ballot.

Section 2. Every qualified elector shall be eligible to any office to be voted for, unless disqualified by age. But no person shall hold two offices of honor or profit at the same time except officers in the militia and Notaries Public.

Section 3. Every male citizen of the United States, twenty-one years of age and upwards, not laboring under the disabilities named in this Constitution, and possessing the qualifications required by it, shall be a legal elector.

Section 4. The qualifications for suffrage shall be as follows:

(a.) Residence in the State for two years, in the County one year, in the election district in which the elector offers to vote four months, and the payment of a poll tax six months before any election; *Provided, however,* That Ministers of the Gospel in charge of an organized church shall be entitled to vote after six months' residence in the State, if otherwise qualified.

(b.) Registration, which shall provide for the enrollment of every elector once in ten years.

(c.) The person applying for registration must be able to read and write any Section of the Constitution, or must show that he owns and pays taxes on \$300 worth of property in this State: *Provided,* That at the first registration under this Constitution, and up to January 1st, 1898, all male persons of voting age who can read a clause in this Constitution, or understand or explain it when read to them by the registration officer, shall be entitled to register and become electors. A separate record of all illiterate persons thus registered, sworn to by the registration officer shall be filed, one copy with the Clerk of Court, and one in the office of the Secretary of State, on or before Jan-

uary 1st, 1898, and such persons shall remain during life qualified electors, unless disqualified by the provisions of Section 6 of this Article. The certificate of the Clerk of Court or Secretary of State shall be sufficient evidence to establish the right of said class of citizens to registration and the franchise.

(d.) Any person who shall apply for registration after January 1st, 1898, if otherwise qualified, may be registered: *Provided,* That he can both read and write any Section of this Constitution, or can show that he owns and has paid taxes during the previous year on property in this State assessed at \$300 or more. . . .

Section 6. The following persons are disqualified from being registered or voting:

First, persons convicted of burglary, theft, arson, obtaining goods or money under false pretenses, perjury, forgery, robbery, bribery, adultery, embezzlement, bigamy, or crimes against the election laws: *Provided,* That the pardon of the Governor shall remove such disqualifications.

Second, persons who are idiots, insane, paupers supported at the public expense, and persons confined in any public prison.

Section 7. For the purpose of voting no person shall be deemed to have gained or lost a residence by reason of his presence or absence while employed in the service of the United States, nor while engaged in the navigation of the waters of this State or of the United States or of the high seas.

Section 8. The General Assembly shall provide by law for the registration of all qualified electors and shall prescribe the manner of holding elections and of ascertaining the results of the same: *Provided,* That each of the two political parties casting the highest number of votes at the preceding election shall have had representation on the Board of Managers at each precinct and on the Board of County Canvassers in each County: *Provided,* At the first registration under this Constitution and until the first of January, 1898, the registration shall be conducted by a Board of three to be appointed by the Governor, or by and with the advice and consent of the Senate.

Section 9. The several Counties in the State shall be divided into election districts, with one precinct in each of the same, at which alone the voter registered for that precinct can cast his ballot: *Provided,* That a voter may be transferred from one election district to another.

Section 10. The General Assembly shall provide by law for the holding of party primary elections and punishing fraud at the same. . . .

## HENRY CABOT LODGE

HENRY CABOT LODGE (1850-1924) is one of the numerous instances which might be cited against the contention that, in America, the "better element"—men of superior education and social status—remains aloof from politics. A member of the merchant aristocracy of Massachusetts, Lodge turned from the law to scholarship and journalism. In 1883, Lodge had his first success in Massachusetts politics when he fought Ben Butler's effort to be elected Governor. As a young reformer, Lodge found it hard to support Blaine the next year, but party regularity finally triumphed and he remained silent. The Massachusetts Republicans displayed their appreciation by helping send him to the House in 1886. There, Lodge championed civil service reform and Negro rights, urging that federal troops be stationed at the polls to protect the Negro franchise at federal elections. The measure in which Lodge maintained most continuous interest in this period, however, was his bill for imposing a literacy test on those who wished to enter the United States as immigrants.

For immigration was once again becoming a matter of serious interest to many Americans. The nativist movement of the middle thirties and the fifties had been concerned with the danger to American institutions in the migration from Roman Catholic Ireland. In the nineties, opposition to immigration rested on rather different grounds: the organized workers were worrying about the competition of imported cheap European labor; while sociologists were calling attention to the dilution and, indeed, extermination of the country's original "racial stock."

Until 1880, immigrants had come from northern and western Europe, from nations which resembled the United States in religion and the practice of constitutional government. The decade of the eighties saw the first great

wave of immigration from southern and eastern Europe. Italians, Slavs, and Russian Jews replaced English, German, and Scandinavian immigrants. The newcomers had lower standards of living than native workers; their religious and political backgrounds differed markedly from those which had contributed to form the existing American pattern. Though most of the new immigrants were peasants from southern Italy and the Slavic lands of Austria-Hungary, they gathered in the slums of seaboard cities and industrial towns. Here they were exploited by employers and contractors (frequently their own countrymen) and were used to break strikes and to maintain corrupt local political machines in power.

Lodge had been aware of these conditions since 1890, when he wrote an article on the new immigration in the *North American Review*. His interest lay in maintaining the "racial" purity of America rather than in safeguarding the gains of American labor or protecting the immigrant against the exactions of steamship company agents and labor contractors. These last were operating in defiance of the law of 1882, which had sought to put an end to the importation of contract labor.

It was in a House discussion of proposals to improve enforcement of the act of 1882 that Lodge brought forth his measure to require that immigrants demonstrate their ability to read and write some language. When Lodge was chosen Senator from Massachusetts, in 1893, he introduced his bill in the upper house. And on March 16, 1896, he made a long speech in the Senate which exalted the Anglo-Saxon "race" and its mission and called upon Congress to preserve the country against the new version of the barbarian invasion.

The selection here reprinted is taken from the *Congressional Record* of that date (54th Congress, 1st Session).

*Immigration Restriction*

BY HENRY CABOT LODGE

MR. LODGE. Mr. President, this bill is intended to amend the existing law so as to restrict still further immigration to the United States. Paupers, diseased persons, convicts, and contract laborers are now excluded. By this bill it is proposed to make a new class of excluded immigrants and add to those which have just been named the totally ignorant. The bill is of the simplest kind. The first section excludes from the country all immigrants who can not read and write either their own or some other language. The second section merely provides a simple test for determining whether the immigrant can read or write, and is added to the bill so as to define the duties of the immigrant inspectors, and to assure to all immigrants alike perfect justice and a fair test of their knowledge.

Two questions arise in connection with this bill. The first is as to the merits of this particular form of restriction; the second as to the general policy of restricting immigration at all. I desire to discuss briefly these two questions in the order in which I have stated them. The smaller question as to the merits of this particular bill comes first. The existing laws of the United States now exclude, as I have said, certain classes of immigrants who, it is universally agreed, would be most undesirable additions to our population. These exclusions have been enforced and the results have been beneficial, but the excluded classes are extremely limited and do not by any means cover all or even any considerable part of the immigrants whose presence here is undesirable or injurious, nor do they have any adequate effect in properly reducing the great body of immigration to this country. There can be no doubt that there is a very earnest desire on the part of the American people to restrict further and much more extensively than has yet been done foreign immigration to the United States. The question before the committee was how this could best be done; that is, by what method the largest number of undesirable immigrants and the smallest possible number of desirable immigrants could be shut out. Three methods of obtaining this further restriction have been widely discussed of late years and in various forms have been brought to the attention of Congress. The first was the imposition of a capitation tax on all immigrants. There can be no doubt as to the effectiveness of this method if the tax is made sufficiently heavy. But although exclusion by a tax would be thorough, it would be indiscriminating, and your

committee did not feel that the time had yet come for its application. The second scheme was to restrict immigration by requiring consular certification of immigrants. This plan has been much advocated, and if it were possible to carry it out thoroughly and to add very largely to the number of our consuls in order to do so, it would no doubt be effective and beneficial. But the committee was satisfied that consular certification was, under existing circumstances, impractical; that the necessary machinery could not be provided; that it would lead to many serious questions with foreign governments, and that it could not be properly and justly enforced. . . .

The third method was to exclude all immigrants who could neither read nor write, and this is the plan which was adopted by the committee and which is embodied in this bill. In their report the committee have shown by statistics, which have been collected and tabulated with great care, the emigrants who would be affected by this illiteracy test. It is not necessary for me here to do more than summarize the results of the committee's investigation, which have been set forth fully in their report. It is found, in the first place, that the illiteracy test will bear most heavily upon the Italians, Russians, Poles, Hungarians, Greeks, and Asiatics, and very lightly, or not at all, upon English-speaking emigrants or Germans, Scandinavians, and French. In other words, the races most affected by the illiteracy test are those whose emigration to this country has begun within the last twenty years and swelled rapidly to enormous proportions, races with which the English-speaking people have never hitherto assimilated, and who are most alien to the great body of the people of the United States. On the other hand, immigrants from the United Kingdom and of those races which are most closely related to the English-speaking people, and who with the English-speaking people themselves founded the American colonies and built up the United States, are affected but little by the proposed test. These races would not be prevented by this law from coming to this country in practically undiminished numbers. These kindred races also are those who alone go to the Western and Southern States, where immigrants are desired, and take up our unoccupied lands. The races which would suffer most seriously by exclusion under the proposed bill furnish the immigrants who do not go to the

West or South, where immigration is needed, but who remain on the Atlantic Seaboard, where immigration is not needed and where their presence is most injurious and undesirable.

The statistics prepared by the committee show further that the immigrants excluded by the illiteracy test are those who remain for the most part in congested masses in our great cities. They furnish, as other tables show, a large proportion of the population of the slums. The committee's report proves that illiteracy runs parallel with the slum population, with criminals, paupers, and juvenile delinquents of foreign birth or parentage, whose percentage is out of all proportion to their share of the total population when compared with the percentage of the same classes among the native born. It also appears from investigations which have been made that the immigrants who would be shut out by the illiteracy test are those who bring least money to the country and come most quickly upon private or public charity for support. . . .

These facts prove to demonstration that the exclusion of immigrants unable to read or write, as proposed by this bill, will operate against the most undesirable and harmful part of our present immigration and shut out elements which no thoughtful or patriotic man can wish to see multiplied among the people of the United States. The report of the committee also proves that this bill meets the great requirement of all legislation of this character in excluding the greatest proportion possible of thoroughly undesirable and dangerous immigrants and the smallest proportion of immigrants who are unobjectionable.

I have said enough to show what the effects of this bill would be, and that if enacted into law it would be fair in its operation and highly beneficial in its results. It now remains for me to discuss the second and larger question, as to the advisability of restricting immigration at all. This is a subject of the greatest magnitude and the most far-reaching importance. It has two sides, the economic and the social. As to the former, but few words are necessary. There is no one thing which does so much to bring about a reduction of wages and to injure the American wage earner as the unlimited introduction of cheap foreign labor through unrestricted immigration. Statistics show that the change in the race character of our immigration has been accompanied by a corresponding decline in its quality. The number of skilled mechanics and of persons trained to some occupation or pursuit has fallen off, while the number of those without occupation or training, that is, who are totally unskilled, has risen in our recent

immigration to enormous proportions. This low, unskilled labor is the most deadly enemy of the American wage earner, and does more than anything else toward lowering his wages and forcing down his standard of living. An attempt was made, with the general assent of both political parties, to meet this crying evil some years ago by the passage of what are known as the contract-labor laws. That legislation was excellent in intention, but has proved of but little value in practice. It has checked to a certain extent the introduction of cheap, low-class labor in large masses into the United States. It has made it a little more difficult for such labor to come here, but the labor of this class continues to come, even if not in the same way, and the total amount of it has not been materially reduced. Even if the contract-labor laws were enforced intelligently and thoroughly, there is no reason to suppose that they would have any adequate effect in checking the evil which they were designed to stop. It is perfectly clear after the experience of several years that the only relief which can come to the American wage earner from the competition of low-class immigrant labor must be by general laws restricting the total amount of immigration and framed in such a way as to affect most strongly those elements of the immigration which furnish the low, unskilled, and ignorant foreign labor. . . .

I now come to the aspect of this question which is graver and more serious than any other. The injury of unrestricted immigration to American wages and American standards of living is sufficiently plain and is bad enough, but the danger which this immigration threatens to the quality of our citizenship is far worse. That which it concerns us to know and that which is more vital to us as a people than all possible questions of tariff or currency is whether the quality of our citizenship is endangered by the present course and character of immigration to the United States. To determine this question intelligently we must look into the history of our race. . . .

For practical purposes in considering a question of race and in dealing with the civilized peoples of western Europe and of America there is no such thing as a race of original purity according to the divisions of ethnical science. In considering the practical problems of the present time we can deal only with artificial races—that is, races like the English-speaking people, the French, or the Germans—who have been developed as races by the operation during a long period of time of climatic influences, wars, migrations, conquests, and industrial development. To the philologist and the ethnologist it is of great importance to de-

termine the ethnical divisions of mankind in the earliest historic times. To the scientific modern historian, to the student of social phenomena, and to the statesman alike the early ethnic divisions are of little consequence, but the sharply marked race divisions which have been gradually developed by the conditions and events of the last thousand years are absolutely vital. It is by these conditions and events that the races or nations which to-day govern the world have been produced, and it is their characteristics which it is important for us to understand.

How, then, has the English-speaking race, which to-day controls so large a part of the earth's surface, been formed? Great Britain and Ireland at the time of the Roman conquest were populated by Celtic tribes. After the downfall of the Roman Empire these tribes remained in possession of the islands with probably but a very slight infusion of Latin blood. Then came what is commonly known as the Saxon invasion. Certain North German tribes, own brothers to those other tribes which swept southward and westward over the whole Roman Empire, crossed the English Channel and landed in the corner of England known as the Isle of Thanet. They were hard fighters, pagans, and adventurers. They swept over the whole of England and the Lowlands of Scotland. A few British words like basket, relating to domestic employments, indicate that only women of the conquered race, and not many of those, were spared. The extermination was fierce and thorough. The native Celts were driven back into the Highlands of Scotland and to the edge of the sea in Cornwall and Wales, while all the rest of the land became Saxon.

The conquerors established themselves in their new country, were converted to Christianity, and began to advance in civilization. Then came a fresh wave from the Germanic tribes. This time it was the Danes. They were of the same blood as the Saxons, and the two kindred races fought hard for the possession of England until the last comers prevailed and their chiefs reached the throne. Then in 1066 there was another invasion, this time from the shores of France. But the new invaders and conquerors were not Frenchmen. As Carlyle says, they were only Saxons who spoke French. A hundred years before these Normans, or Northmen, northernmost of all the Germanic tribes, had descended from their land of snow and ice upon Europe. They were the most remarkable of all the people who poured out of the Germanic forests. They came upon Europe in their long, low ships, a set of fighting pirates and buccaneers, and yet these same pirates brought with them out

of the darkness and cold of the north a remarkable literature and a strange and poetic mythology. Wherever they went they conquered, and wherever they stopped they set up for themselves dukedoms, principalities, and kingdoms. To them we owe the marvels of Gothic architecture, for it was they who were the great builders and architects of mediæval Europe. They were great military engineers as well and revived the art of fortified defense, which had been lost to the world. They were great statesmen and great generals, and they had only been in Normandy about a hundred years when they crossed the English Channel, conquered the country, and gave to England for many generations to come her kings and nobles. But the Normans in their turn were absorbed or blended with the great mass of the Danes and the still earlier Saxons. . . .

When the Reformation came this work was pretty nearly done, and after that great movement had struck off the shackles from the human mind the English-speaking people were ready to come forward and begin to play their part in a world where the despotism of the church had been broken, and where political despotism was about to enter on its great struggle against the forces of freedom. . . .

This period, when the work of centuries which had resulted in the making of the English people was complete, and when they were entering upon their career of world conquest, is of peculiar interest to us. Then it was that from the England of Shakespeare and Bacon and Raleigh, and later from the England of Pym and Hampden and Cromwell and Milton, Englishmen fared forth across the great ocean to the North American Continent. The first Englishmen to come here settled on the James River, and there laid the foundation of the great State of Virginia. The next landed much farther to the north. . . .

Such, then, briefly, were the people composing the colonies when we faced England in the war for independence. It will be observed that with the exception of the Huguenot French, who formed but a small percentage of the total population, the people of the thirteen colonies were all of the same original race stocks. The Dutch, the Swedes, and the Germans simply blended again with the English-speaking people, who like them were descended from the Germanic tribes whom Cæsar fought and Tacitus described.

During the present century, down to 1875, there have been three large migrations to this country in addition to the always steady stream from Great Britain; one came from Ireland about the middle of the century, and somewhat later one



from Germany and one from Scandinavia, in which is included Sweden, Denmark, and Norway. The Irish, although of a different race stock originally, have been closely associated with the English-speaking people for nearly a thousand years. They speak the same language, and during that long period the two races have lived side by side, and to some extent intermarried. The Germans and Scandinavians are again people of the same race stock as the English who founded and built up the colonies. During this century, down to 1875, then, as in the two which preceded it, there had been scarcely any immigration to this country, except from kindred or allied races, and no other, which was sufficiently numerous to have produced any effect on the national characteristics, or to be taken into account here. Since 1875, however, there has been a great change. While the people who for two hundred and fifty years have been migrating to America have continued to furnish large numbers of immigrants to the United States, other races of totally different race origin, with whom the English-speaking people have never hitherto been assimilated or brought in contact, have suddenly begun to immigrate to the United States in large numbers. Russians, Hungarians, Poles, Bohemians, Italians, Greeks, and even Asiatics, whose immigration to America was almost unknown twenty years ago, have during the last twenty years poured in in steadily increasing numbers, until now they nearly equal the immigration of those races kindred in blood or speech, or both, by whom the United States has hitherto been built up and the American people formed.

This momentous fact is the one which confronts us to-day, and if continued, it carries with it future consequences far deeper than any other event of our times. It involves, in a word, nothing less than the possibility of a great and perilous change in the very fabric of our race. The English-speaking race, as I have shown, has been made slowly during the centuries. Nothing has happened thus far to radically change it here. In the United States, after allowing for the variations produced by new climatic influences and changed conditions of life and of political institutions, it is still in the great essentials fundamentally the same race. The additions in this country until the present time have been from kindred people or from those with whom we have been long allied and who speak the same language. By those who look at this question superficially we hear it often said that the English-speaking people, especially in America, are a mixture of races. Analysis shows that the actual mixture of blood in the English-speaking

race is very small, and that while the English-speaking people are derived through different channels, no doubt, there is among them none the less an overwhelming preponderance of the same race stock, that of the great Germanic tribes who reached from Norway to the Alps. They have been welded together by more than a thousand years of wars, conquests, migrations, and struggles, both at home and abroad, and in so doing they have attained a fixity and definiteness of national character unknown to any other people. . . .

It being admitted, therefore, that a historic race of fixed type has been developed, it remains to consider what this means, what a race is, and what a change would portend. That which identifies a race and sets it apart from others is not to be found merely or ultimately in its physical appearance, its institutions, its laws, its literature, or even its language. These are in the last analysis only the expression or the evidence of race. The achievements of the intellect pass easily from land to land and from people to people. The telephone, invented but yesterday, is used to-day in China, in Australia, or in South Africa as freely as in the United States. The book which the press to-day gives to the world in English is scattered tomorrow throughout the earth in every tongue, and the thoughts of the writer become the property of mankind. You can take a Hindoo and give him the highest education the world can afford. He has a keen intelligence. He will absorb the learning of Oxford, he will acquire the manners and habits of England, he will sit in the British Parliament, but you can not make him an Englishman. Yet he, like his conqueror, is of the great Indo-European family. But it has taken six thousand years and more to create the differences which exist between them. You can not efface those differences thus made, by education in a single life, because they do not rest upon the intellect. What, then, is this matter of race which separates the Englishman from the Hindoo and the American from the Indian? It is something deeper and more fundamental than anything which concerns the intellect. We all know it instinctively, although it is so impalpable that we can scarcely define it, and yet is so deeply marked that even the physiological differences between the Negro, the Mongol, and the Caucasian are not more persistent or more obvious. When we speak of a race, then, we do not mean its expressions in art or in language, or its achievements in knowledge. We mean the moral and intellectual characters, which in their association make the soul of a race, and which represent the product of all its



past, the inheritance of all its ancestors, and the motives of all its conduct. The men of each race possess an indestructible stock of ideas, traditions, sentiments, modes of thought, an unconscious inheritance from their ancestors, upon which argument has no effect. What makes a race are their mental and, above all, their moral characteristics, the slow growth and accumulation of centuries of toil and conflict. These are the qualities which determine their social efficiency as a people, which make one race rise and another fall, which we draw out of a dim past through many generations of ancestors, about which we can not argue, but in which we blindly believe, and which guide us in our short-lived generation as they have guided the race itself across the centuries. . . .

Such achievements as M. Le Bon credits us with are due to the qualities of the American people, whom he, as a man of science looking below the surface, rightly describes as homogeneous. Those qualities are moral far more than intellectual, and it is on the moral qualities of the English-speaking race that our history, our victories, and all our future rest. There is only one way in which you can lower those qualities or weaken those characteristics, and that is by breeding them out. If a lower race mixes with a higher in sufficient numbers, history teaches us that the lower race will prevail. The lower race will absorb the higher, not the higher the lower, when the two strains approach equality in numbers. In other words, there is a limit to the capacity of any race for assimilating and elevating an inferior race, and when you begin to pour in in unlimited numbers people of alien or lower races of less social efficiency and less moral force, you are running the most frightful risk that any people can run. The lowering of a great race means not only its own decline but that of human civilization. M. Le Bon sees no

danger to us in immigration, and his reason for this view is one of the most interesting things he says. He declares that the people of the United States will never be injured by immigration, because the moment they see the peril the great race instinct will assert itself and shut the immigration out. The reports of the Treasury for the last fifteen years show that the peril is at hand. I trust that the prediction of science is true and that the unerring instinct of the race will shut the danger out, as it closed the door upon the coming of the Chinese. . . .

Mr. President, more precious even than forms of government are the mental and moral qualities which make what we call our race. While those stand unimpaired all is safe. When those decline all is imperiled. They are exposed to but a single danger, and that is by changing the quality of our race and citizenship through the wholesale infusion of races whose traditions and inheritances, whose thoughts and whose beliefs are wholly alien to ours and with whom we have never assimilated or even been associated in the past. The danger has begun. It is small as yet, comparatively speaking, but it is large enough to warn us to act while there is yet time and while it can be done easily and efficiently. There lies the peril at the portals of our land; there is pressing in the tide of unrestricted immigration. The time has certainly come, if not to stop, at least to check, to sift, and to restrict those immigrants. In careless strength, with generous hand, we have kept our gates wide open to all the world. If we do not close them, we should at least place sentinels beside them to challenge those who would pass through. The gates which admit men to the United States and to citizenship in the great Republic should no longer be left unguarded.

## JUSTICE BREWER

THE RAILROAD BROTHERHOODS, which had been denounced as "public enemies" during the seventies, had subsided into respectability by 1893. Contented with unionizing only the four operating crafts, the Brotherhoods made no effort to reach other groups of railroad workers; indeed, one of their leaders asserted that the Brotherhood of Locomotive Engineers was not a labor organization. Maintenance-of-way and shop employees had attempted to organize, however, and in the eighties, when the

Knights of Labor was flourishing, they had made brief gains; but all of these were lost when the Southwest strike failed in 1886. Five years later, Eugene V. Debs (1855-1926) left his post as secretary of the Brotherhood of Locomotive Firemen and helped organize the American Railway Union, which included workers in all branches of railroading outside the Brotherhoods. The new union was meeting with some success when its participation in the Pullman strike of 1894 destroyed it.

At Pullman, in Illinois, the inventor of the modern sleeping car had erected a "model" town in which almost all the social services were furnished—and owned—by the Pullman Company. In 1894, the effects of the previous year's depression reduced the earnings of the Pullman Company and a wage cut was ordered. When the Pullman workers refused to accept the cut, they were evicted from the company's houses, and went on strike. They appealed to the American Railway Union for help.

Against Debs's counsel, the railwaymen decided to refuse to handle Pullman cars. Since the railroads would not allow the Pullmans to be uncoupled, train service halted. Before President Cleveland had sent troops into Illinois to keep the mails moving, however, the federal courts had acted to free transport by issuing an injunction against the strikers.

It was for violation of this writ that Debs was declared guilty of contempt of court and it is his petition against that sentence which is denied in this decision of the Supreme Court. The use of injunctions in railway labor disputes was no novelty, for financial difficulties had thrown a sufficient number of railroads into federal court receiverships to make strikes

against them a matter of equity jurisdiction. The decision in the Debs case set the issuance of injunctions on broader ground, however. The court did not even rely on conspiracy under the Sherman Anti-Trust Law, as it was to do in other decisions limiting labor's weapons. The court based its judgment on the sovereignty of the United States within its sphere of government. Since interstate commerce is to be regulated by the Federal government, the United States may remove all obstacles to the passage of commerce and the mails. To carry out that purpose, the government may use injunctions even though the writ is a civil process and the acts complained of are criminal. The injunction was properly issued, in this instance, said the Supreme Court; hence the Circuit Court might punish for contempt without review of its findings or resort to habeas corpus. It was this intervention of the Supreme Court on the side of property rights—plus its decisions in the Income Tax Law and the Sugar Trust cases in the same year—that made it so unpopular and led to its condemnation by the Democratic party in 1896.

The selection here reprinted is from 158 U.S. 564 (1895). The opinion was written by Justice Brewer.

### *Opinion of the Court In Re Debs*

BY JUSTICE BREWER

... THAT THE BILL filed in this case alleged special facts calling for the exercise of all the powers of the court is not open to question. The picture drawn in it of the vast interests involved, not merely of the city of Chicago and the State of Illinois, but of all the States, and the general confusion into which the interstate commerce of the country was thrown; the forcible interference with that commerce; the attempted exercise by individuals of powers belonging only to government, and the threatened continuance of such invasions of public right, presented a condition of affairs which called for the fullest exercise of all the powers of the courts. If ever there was a special exigency, one which demanded that the court should do all that courts can do, it was disclosed by this bill, and we need not turn to the public

history of the day, which only reaffirms with clearest emphasis all its allegations.

The difference between a public nuisance and a private nuisance is that the one affects the people at large and the other simply the individual. The quality of the wrong is the same, and the jurisdiction of the courts over them rests upon the same principles and goes to the same extent. Of course, circumstances may exist in one case, which do not in another, to induce the court to interfere or to refuse to interfere by injunction, but the jurisdiction, the power to interfere, exists in all cases of nuisance. True, many more suits are brought by individuals than by the public to enjoin nuisances, but there are two reasons for this. First, the instances are more numerous of private than of public nuisances; and, second,

often that which is in fact a public nuisance is restrained at the suit of a private individual, whose right to relief arises because of a special injury resulting therefrom. . . .

The law is full of instances in which the same act may give rise to a civil action and a criminal prosecution. An assault with intent to kill may be punished criminally, under an indictment therefor, or will support a civil action for damages, and the same is true of all other offences which cause injury to person or property. In such cases the jurisdiction of the civil court is invoked, not to enforce the criminal law and punish the wrongdoer, but to compensate the injured party for the damages which he or his property has suffered, and it is no defence to the civil action that the same act by the defendant exposes him also to indictment and punishment in a court of criminal jurisdiction. So here, the acts of the defendants may or may not have been violations of the criminal law. If they were, that matter is for inquiry in other proceedings. The complaint made against them in this is of disobedience to an order of a civil court, made for the protection of property and the security of rights. If any criminal prosecution be brought against them for the criminal offences alleged in the bill of complaint, of derauling and wrecking engines and trains, assaulting and disabling employes of the railroad companies, it will be no defence to such prosecution that they disobeyed the orders of injunction served upon them and have been punished for such disobedience.

Nor is there in this any invasion of the constitutional right of trial by jury. We fully agree with counsel that "it matters not what form the attempt to deny constitutional right may take. It is vain and ineffectual, and must be so declared by the courts," and we reaffirm the declaration made for the court by Mr. Justice Bradley in *Boyd v. United States*, 116 U. S. 616, 635, that "it is the duty of courts to be watchful for the constitutional rights of the citizen, and against any stealthy encroachments thereon. Their motto should be *obsta principiis*." But the power of a court to make an order carries with it the equal power to punish for a disobedience of that order, and the inquiry as to the question of disobedience has been, from time immemorial, the special function of the court. And this is no technical rule. In order that a court may compel obedience to its orders it must have the right to inquire whether there has been any disobedience thereof. To submit the question of disobedience to another tribunal, be it a jury or another court, would operate to deprive the proceeding of half its efficiency. . . .

In brief, a court, enforcing obedience to its orders by proceedings for contempt, is not executing the criminal laws of the land, but only securing to suitors the rights which it has adjudged them entitled to.

Further, it is said by counsel in their brief:

"No case can be cited where such a bill in behalf of the sovereign has been entertained against riot and mob violence, though occurring on the highway. It is not such fitful and temporary obstruction that constitutes a nuisance. The strong hand of executive power is required to deal with such lawless demonstrations.

"The courts should stand aloof from them and not invade executive prerogative, nor even at the behest or request of the executive travel out of the beaten path of well-settled judicial authority. A mob cannot be suppressed by injunction; nor can its leaders be tried, convicted, and sentenced in equity.

"It is too great a strain upon the judicial branch of the government to impose this essentially executive and military power upon courts of chancery."

We do not perceive that this argument questions the jurisdiction of the court, but only the expediency of the action of the government in applying for its process. It surely cannot be seriously contended that the court has jurisdiction to enjoin the obstruction of a highway by one person, but that its jurisdiction ceases when the obstruction is by a hundred persons. It may be true, as suggested, that in the excitement of passion a mob will pay little heed to processes issued from the courts, and it may be, as said by counsel in argument, that it would savor somewhat of the puerile and ridiculous to have read a writ of injunction to Lee's army during the late civil war. It is doubtless true that *inter arma leges silent*, and in the throes of rebellion or revolution the processes of civil courts are of little avail, for the power of the courts rests on the general support of the people and their recognition of the fact that peaceful remedies are the true resort for the correction of wrongs. But does not counsel's argument imply too much? Is it to be assumed that these defendants were conducting a rebellion or inaugurating a revolution, and that they and their associates were thus placing themselves beyond the reach of the civil process of the courts? We find in the opinion of the Circuit Court a quotation from the testimony given by one of the defendants before the United States Strike Commission, which is sufficient answer to this suggestion:

"As soon as the employés found that we were arrested, and taken from the scene of action, they became demoralized, and that ended the strike. It was not the soldiers that ended the strike. It was not the old brotherhoods that ended the strike. It was simply the United States courts that ended the strike. Our men were in a position that never would have been shaken, under any circumstances, if we had been permitted to remain upon the field among them. Once we were taken from the scene of action, and restrained from sending telegrams or issuing orders or answering questions, then the minions of the corporations would be put to work. . . . Our headquarters were temporarily demoralized and abandoned, and we could not answer any messages. The men went back to work, and the ranks were broken, and the strike was broken up, . . . not by the army, and not by any other power, but simply and solely by the action of the United States courts in restraining us from discharging our duties as officers and representatives of our employés."

Whatever any single individual may have thought or planned, the great body of those who were engaged in these transactions contemplated neither rebellion nor revolution, and when in the due order of legal proceedings the question of right and wrong was submitted to the courts, and by them decided, they unhesitatingly yielded to their decisions. The outcome, by the very testimony of the defendants, attests the wisdom of the course pursued by the government, and that it was well not to oppose force simply by force, but to invoke the jurisdiction and judgment of those tribunals to whom by the Constitution and in accordance with the settled conviction of all citizens is committed the determination of questions of right and wrong between individuals, masses, and States.

It must be borne in mind that this bill was not simply to enjoin a mob and mob violence. It was not a bill to command a keeping of the peace; much less was its purport to restrain the defendants from abandoning whatever employment they were engaged in. The right of any laborer, or any number of laborers, to quit work was not challenged. The scope and purpose of the bill was only to restrain forcible obstructions of the highways along which interstate commerce travels and the mails are carried. And the facts set forth at length are only those facts which tended to show that the defendants were engaged in such obstructions.

A most earnest and eloquent appeal was made to us in eulogy of the heroic spirit of those who threw up their employment, and gave up their

means of earning a livelihood, not in defence of their own rights, but in sympathy for and to assist others whom they believed to be wronged. We yield to none in our admiration of any act of heroism or self-sacrifice, but we may be permitted to add that it is a lesson which cannot be learned too soon or too thoroughly that under this government of and by the people the means of redress of all wrongs are through the courts and at the ballot-box, and that no wrong, real or fancied, carries with it legal warrant to invite as a means of redress the coöperation of a mob, with its accompanying acts of violence.

We have given to this case the most careful and anxious attention, for we realize that it touches closely questions of supreme importance to the people of this country. Summing up our conclusions, we hold that the government of the United States is one having jurisdiction over every foot of soil within its territory, and acting directly upon each citizen; that while it is a government of enumerated powers, it has within the limits of those powers all the attributes of sovereignty; that to it is committed power over interstate commerce and the transmission of the mail; that the powers thus conferred upon the national government are not dormant, but have been assumed and put into practical exercise by the legislation of Congress; that in the exercise of those powers it is competent for the nation to remove all obstructions upon highways, natural or artificial, to the passage of interstate commerce or the carrying of the mail; that while it may be competent for the government (through the executive branch and in the use of the entire executive power of the nation) to forcibly remove all such obstructions, it is equally within its competency to appeal to the civil courts for an inquiry and determination as to the existence and character of any alleged obstructions, and if such are found to exist, or threaten to occur, to invoke the powers of those courts to remove or restrain such obstructions; that the jurisdiction of courts to interfere in such matters by injunction is one recognized from ancient times and by indubitable authority; that such jurisdiction is not ousted by the fact that the obstructions are accompanied by or consist of acts in themselves violations of the criminal law; that the proceeding by injunction is of a civil character, and may be enforced by proceedings in contempt; that such proceedings are not in execution of the criminal laws of the land; that the penalty for a violation of injunction is no substitute for and no defence to a prosecution for any criminal offences committed in the course of such violation; that the complaint filed in this case clearly showed

an existing obstruction of artificial highways for the passage of interstate commerce and the transmission of the mail—an obstruction not only temporarily existing, but threatening to continue; that under such complaint the Circuit Court had power to issue its process of injunction; that it having been issued and served on these defendants, the Circuit Court had authority to inquire whether its orders had been disobeyed, and when it found that they had been, then to proceed under section 725, Revised Statutes, which grants power "to punish, by fine or imprisonment, . . . disobedience, . . . by any party . . . or other person, to any lawful writ, process, order, rule, decree or command," and enter the order of punishment complained of; and, finally, that, the Circuit Court,

having full jurisdiction in the premises, its finding of the fact of disobedience is not open to review on *habeas corpus* in this or any other court. . . .

We enter into no examination of the act of July 2, 1890, c. 647, 26 Stat. 209, upon which the Circuit Court relied mainly to sustain its jurisdiction. It must not be understood from this that we dissent from the conclusions of that court in reference to the scope of the act, but simply that we prefer to rest our judgment on the broader ground which has been discussed in this opinion, believing it of importance that the principles underlying it should be fully stated and affirmed.

The petition for a writ of *habeas corpus* is

*Denied.*

## EXPANDING AMERICA

CARROLL D. WRIGHT

IN THE EIGHTIES, as a result of the pressure of the Knights of Labor, Congress conceded labor's rights to a governmental fact-finding agency and created the Bureau of Labor in the Department of the Interior. President Arthur named Carroll D. Wright (1840-1909) the country's first Labor Commissioner, instructing him to inquire into the cause and nature of industrial depressions. Wright was given five agents who proceeded to investigate wages and working conditions here and abroad. His first annual report was submitted in 1886.

Wright had trained for the law and had served in the Union armies in the Civil War. On his return to civilian life, he won a reputation as a patent attorney, was elected to the Massachusetts Senate, and then became chief of the State's Bureau of Labor Statistics. His excellent work in this office had a helpful influence in the establishment of similar agencies in other states and led to his Washington appointment.

For his first report, Wright tried to collect a vast array of statistical data; his materials, however, were filled with lacunae and his techniques of analysis—by present-day standards—quite primitive. But his data do show the relations between unemployment and the

extraordinary technological fluidity of a growing industrial economy. So impressed was Wright by these achievements that he ventured on a prediction: the Western World, in terms of technological progress, was nearing maturity. There seemed few worlds left to be conquered. His remarks on this point constitute a curiosity of economic literature and are presented here because Wright seemed to be anticipating the so-called "maturity school" of American economists of fifty years later. (See Part XI, below.) The selection here reprinted is from the *First Annual Report of the Commissioner of Labor, Industrial Depressions* (Washington, 1886).

In another ten years, Wright was changing his mind: there was to be no end, apparently, to industrial progress. In his *Industrial Evolution of the United States* (New York, 1895), which Chatauqua spread widely throughout the nation, Wright was able to demonstrate some of the triumphs of that progress. Thanks to the machine, the productivity of the worker was increasing enormously and the country's material wealth was steadily growing. But labor was also profiting: in more wages, in a shorter working day and—best of all—in higher real wages as a result of lower costs for

necessities due to machine production. The second selection comes from Wright's *Industrial Evolution*. It is particularly interesting be-

cause it is one of the early attempts in American economic literature to discuss the history of wages.

## *First Annual Report of the Commissioner of Labor*

BY CARROLL D. WRIGHT

### CHAPTER III: THE MANUFACTURING NATIONS CONSIDERED AS A GROUP IN RELATION TO THE PRESENT DEPRESSION

IT IS APPARENT from the statistical illustrations given in the preceding chapters that the family of manufacturing states, Great Britain, France, Belgium, Germany, and the United States, if not also Austria, Russia, and Italy, are suffering from an industrial depression novel in its kind, and yet having characteristic features of similarity throughout the whole range of states. It seems to be quite true that in those states considered the volume of business and of production has not been affected disastrously by the depression, but that prices have been greatly reduced, wages frequently reduced, and margins of profits carried to the minimum range. Over-production seems to prevail in all alike without regard to the system of commerce which exists in either. What has brought all these states to the position in which they are found at the present time constitutes a most interesting and important question in economics, and one vitally affecting the wage-workers of the world. The wide study given to this matter has resulted in some conclusions entirely warranted by the facts, which may not be lacking in value, and not only the facts, but the results of the facts, are properly stated at this point.

If each of these great communities has reached an industrial condition involving phases common to all, there must be somewhere a line of reasons for such universal condition, and one should be able to develop the logical course of events which has brought such a wide range of states to an industrial epoch.

England, with generations of skill in mechanical employment, was the first to establish the factory system and institute a new industrial order of things, in which the division of labor became more and more an important factor. She controlled also the exchange of the world. In her insular position she was able to make the world pay tribute to her by compelling the produce of the world to pass through her hands, either in kind or in settlement of balances. With these immense advantages, and

having the control, too, of raw materials in abundance, it was natural that England should seek to supply the world with manufactured products. This she was able to do with the aid of her skill, of her science, of rapid transportation, which she did much to develop, and of the vast capital which she possessed, enabling her to carry on great enterprises. So her ambition was natural and legitimate, and her great prosperity came to her without regard to any commercial system which she might have established, and in spite of commercial systems. Free trade became to her a necessity, because she sold to the world her manufactured products, and the world had few manufactured products to sell to her. With the constant increase of equipment to carry out her industrial policy, England at last found herself, on account of the course of other nations, with a plant altogether too large for the demands made upon her, and with a capacity sufficient to supply not only all her own home and colonial markets but a great share of the other markets of the world.

The United States, after the war of the Revolution, found that political freedom only had been secured as the result of the war. Industrially this country was under the control of Great Britain. It became essential to establish a commercial system, which it was thought would enable our industries to become gradually free from the industrial control of England. This policy has, with few interruptions, been pursued to the present time. Foreign producers of manufactured goods have gradually lost the American market, and the American producers have gradually found themselves in position to supply the home demand. Stimulated in this direction, the United States has gone on perfecting machinery, duplicating plant, crowding the market with products, until to-day this country is in the exact position of England, with productive capacity far in excess of the demand upon it, and her industries, as those of Great Britain, stagnated, the wages of labor reduced, prices lowered, and the manufacturers and merchants trying to secure an outlet for surplus goods. This condition has been reached under a system the reverse of that which has prevailed in Eng-

land, and while stimulation has been enhanced by the system prevailing here, the condition has been reached in spite of it.

France, at first drawing her skilled workmen from England and tardy in the establishment of the factory system, at last concluded she ought to supply her own markets at least, and so began war on British industry. With a natural ambition to supply her own markets, she has carried the stimulation so far that she has not only secured the capacity to supply herself but has a vastly enhanced capacity, and is seeking to supply others. To-day France finds herself, through her policy, in precisely the same industrial situation that attends Great Britain and America.

Germany has followed the example of France and the United States, and with precisely the same results. Her commercial policy or system has been, of late years, the same as that of the United States, while Belgium has followed that of Great Britain, and yet all these nations now find themselves in sympathy in their distress, all seeking outlets for their surplus production. The scale of wages in the countries named is according to the following order, the highest first: The United States, Great Britain, France, Belgium, Germany. It is difficult to connect commercial systems with this scale of wages, and when the broad view is taken that each of these countries has overstocked itself with machinery and manufacturing plant far in excess of the wants of production, and when it is considered also that the present period of industrial depression is unique in its character, as not having been attended with financial and commercial crises and panics, financial matters having been only incidentally involved, and when it is considered further that the condition of these nations has been reached under both free trade and protective policies, and under a wide range of tariff restrictions, it is readily seen that the family of nations given to mechanical production have reached an epoch in their existence, and that commercial systems which might have been at one time, or under some circumstances, necessities, are now apparently only expediences, to be used temporarily and not as permanent features of national progress. Historically, it must be admitted that the two great opposing systems of free trade and protection have played well their parts in the industrial development of nations; but the wisdom derived from the experience of all the nations in the race for industrial success should teach each that ultimately that system freest from restrictions will beget generally the best conditions. Meantime, expediency has its power, and must continue to exercise it until the evil resulting from changes

can be met through the softening influences which come from contest and hardship. The struggle so far has had a strong influence in producing ever recurring periods of depression. These considerations are shown to be valid through the information collected by the Bureau in all the countries involved. . . .

In England, Belgium, and France the railroads and canals that are really needed have been built. There remains only to be constructed feeding and competing lines, and experience shows that for such lines the revenue for the capital invested is not equal to nominal remuneration. In Holland the great works are completed; Amsterdam is united to the sea, international communications have been well established, and there are no longer urgent works to be undertaken, and the reward of capital to be invested now is not sufficient to tempt lenders. In Italy and Spain the great arteries are provided with railroads, while the products moved and the revenues derived from capital invested are notoriously inferior to what was expected. When this is the case there is no prospect of rival or subsidiary lines being constructed. Harbors and rivers are sufficiently developed, and warehouses, water and gas works, tramways, etc., are largely provided for. The Pyrenees and the Alps are tunnelled, and a sufficient network of international communication established. In England railroad building cannot be extended to a sufficient degree to absorb much capital or much labor. In Russia the principal lines of railroad have been built with the aid of the Government, and it is not likely that further construction will take place except for strategical purposes. Germany is provided with a full network of railroads, and the facilities for transportation are in excess of actual needs. Austria is in much the same condition as Germany, and Turkey also has as many railroads as can be used. In the United States the mileage of new railroads constructed has been out of all proportion to the increase of the products to be carried.

The Suez Canal has been built, terrestrial and transoceanic lines of telegraph have been laid, and the merchant marine has been transformed from wood to iron. To-day the carrying service of nations, and especially of the great marine nation, England, is overstocked to a far greater extent than the industries. On all sides one sees the accomplished result of the labor of half a century. From a financial point of view, these accomplished results should always be good, but in many cases it is apparent that undertakings have proved deceptive and Governments become needy and some, as Egypt, insolvent. Whatever may have been the financial results, industry has been enormously



developed, cities have been transformed, distances covered, and a new set of economic tools has been given in profusion to rich countries, and in a more reasonable amount to poorer ones. What is strictly necessary has been done oftentimes to superfluity. This full supply of economic tools to meet the wants of nearly all branches of commerce and industry is the most important factor in the present industrial depression. It is true that the discovery of new processes of manufacture will undoubtedly continue, and this will act as an ameliorating influence, but it will not leave room for a marked extension, such as has been witnessed during the last fifty years, or afford a remunerative employment of the vast amount of capital which has been created during that period. The market price of products will continue low, no matter what the cost of production may be. The day of large profits is probably past. There may be room for further intensive, but not extensive, development of industry in the present area of civilization. Outside of the area of a high state of industrial civilization, in China, Japan, India, Australia, Persia, and South Africa, there is a vast deal to be done, but this of necessity will be accomplished slowly, as these countries, not having the capital to make speculative movements, must depend upon the money-lending countries. Supplying themselves with full facilities for industries and commerce will give to each of the great nations of Europe and of America something to do, but the part of each in this work will be small and far from enough to insure more than temporary activity. It may help to keep away stagnation and modify the severity and the duration of industrial depressions. There are very many influences, like the great expense of standing armies, of war and revolutions, and local features, so far as causes are concerned, which enter into the consideration of the industrial situation of the world so far as localities are specifically concerned. The present treatment only has to do with those things which seem to be common. The building of railroads and of ships, even in countries where the land is interlaced with roads and supplied with wharfs lined with shipping, must go on, because the waste needs repairing, and the great industrial work of supplying the

world will furnish enough for all to do; but the brief review of the present industrial situation of the great communities involved indicates that statesmanship is required to establish such guards and checks in human affairs as shall lead to a safer and surer progress than that which has attended the past decade. In the consideration of suggested remedies and in the summary of this report facts will be brought out which will at least be suggestive of channels into which legislation, but more effectually public sentiment, may be directed. Certainly, with the aid of the wisdom of some of the best minds in Europe and America, and of men having the largest experience, these directions should have their influence.

One of the agents of the Bureau reports as the result of interviews had with leading economists in Europe the following as the predominant features of modern industrial development among the producing nations: (1) The influence of the increased facilities for transportation and international communication. (2) The steady progress of rising wages, contemporaneous with declining profits. (3) The enlargement of the circle of producing nations to such extent as to make the means of production far in excess of the needs of consumption. The factors responsible for this state of affairs are—

(a) The desire to participate in the large profits made by those first in the field.

(b) The continuous flow of precious metals after the discovery of the gold mines of California and Australia.

(c) The extension of the credit system, facilitating the advance of capital to those who knew the processes and secrets of manufacture, but who had not the ready money to commence business on their own account.

(d) The establishment of protective tariffs in most of the western European countries and the United States inducing sharp domestic competition and over-production.

(e) The abnormal stimulus given to industry in Germany by the accomplishment of German unity and by the payment by the Government of its domestic obligations from the war indemnity received from France. . . .

## *Industrial Evolution of the United States*

BY CARROLL D. WRIGHT

CHAPTER XVII: LABOR AND RATES OF WAGES,  
1790-1890

A STATEMENT of the actual or average wages for

any period or locality, especially when used for purposes of comparison, is not complete unless accompanied by information as to the hours of labor, regulations as to extra earnings, division of



earnings among underhands, and other methods peculiar to the period or locality. Information as to cost of living and prices of commodities should also be considered, since it is not the amount of money wages that most nearly concerns the workman, but the amount of subsistence obtainable at a given period for a given expenditure. This chapter, however, is confined chiefly to a presentation of wages, prices being incidentally treated. The rates selected are either actual wages or the average for a number of establishments in different localities, and it is believed they fairly represent the wages for the different classes of labor. While the rate of wages for the same class of employees in different establishments within a given district may vary, the tendency is to equality.

In giving wages and prices for the past one hundred years, especially for the first half of the century, recourse has been chiefly to Eastern and Middle State conditions. This has been necessitated by the lack of data for other portions of the country, but it is believed that the facts given are fairly representative relatively of variations in all manufacturing districts of the country taken as a whole, notwithstanding the great variations occurring between one part of the country and another.

At the beginning of the constitutional period, as stated in the chapter on wages in colonial days, not much change had been experienced in the rates of wages paid in different trades, but between 1790 and 1830, when the factory system was in fair and general operation and labor of every character commanded higher wages, it being in greater demand, there was a fair advance, carpenters in 1790 being paid less than 60 cents a day; in 1800 something over 70 cents; in 1810, \$1.09 on the average; in 1820, \$1.13; in 1830, about \$1.13, reaching, however, in the northern parts of our country an average of \$1.40 a day during the period from 1830 to 1840. After this there was not much change for carpenters until 1860. Taking laborers, on the other hand, as fairly representative of general conditions, it is found that they were paid, in 1790, about 43 cents a day, on the average; in 1800, 62½ cents a day; from 1800 to 1810, about 82 cents a day; from 1810 to 1820, something over 90 cents a day, while from 1840 to 1860 they varied from 87½ cents to \$1 a day. Printers were receiving, at the beginning of the century, about \$1.00 a day, and their wages had increased to \$1.75 by 1860. Shoemakers were paid 73½ cents a day, on the average, during the decennial period 1790 to 1800, while they averaged from 1820 to 1830 \$1.06 a day, reaching \$1.70 in 1860. Looking to cotton-mill operatives, whose wages are not quoted much

prior to 1820, we find that they were paid 44 cents a day, on the average, between 1820 and 1830, nearly 90 cents a day from 1830 to 1840. This wage held, with slight increase, to 1850, while during the next decade of years their average pay was \$1.03 a day. Woolen-mill operatives did somewhat better; being paid in the earlier part of the factory period, that is, the decade of years prior to 1830, \$1.12; they rarely reached this high wage again before 1880.

The record of wages after 1830 is far more complete, and the course of their rise or fall can be more clearly stated. In 1831 daily wages for agricultural laborers ranged from 57.5 cents to \$1.00; blacksmiths received from \$1.00 to \$1.25 per day. The daily average for carpenters was \$1.07, but ranged as high as \$1.50, while masons received \$1.26. Since 1873 wages in these staple occupations had more than doubled, but the segregation of mechanics and labor of all kinds into classes had made rapid progress, and an average wage for such a broad grouping conveys no idea of the rates of wages for the different classes. The average daily wages for paper-mill operatives in 1831 was 66.6 cents, printers \$1.25, shoemakers \$1.06, cotton-mill operatives 88.6 cents, woolen-mill operatives 94.6 cents, glassmakers \$1.13, and millwrights \$1.21.

During the thirty years from 1830 to 1860 two violent commercial convulsions occurred, one in 1837 and one in 1857. Excessive importations, speculation, and the abuse of the credit system were the principal causes of both these business depressions; both had the effect of temporarily reducing wages in certain industries. Wages had not fully recovered from the panic of 1857 by 1860. The averages for the decade ending that year, however, show a decided advance over 1830. An average for the ten years ending with 1860 gives agricultural laborers \$1.01 per day, blacksmiths \$1.69, carpenters \$2.03, and masons \$1.53; paper-mill operatives received \$1.17, printers \$1.75, shoemakers \$1.70, cotton-mill operatives \$1.03, woolen-mill operatives 87.3 cents, glassmakers \$2.96, and millwrights \$1.66. The wages in all of these occupations, with the exception of woolen-mill operatives, show an advance over 1830. The percentage of increase ranges from 16.3 for cotton-mill operatives to 161.9 for glassmakers. On making a similar comparison of wages for twenty different occupations, it is found that but one shows an increase in average daily wages.

Without considering the effect that the war, the fluctuation in currency, or the financial crisis of 1873 may have had on wages during the twenty years from 1860 to 1880, we will compare the

averages for 1860 with similar averages for 1880. Agricultural laborers in 1880 received \$1.31 per day, blacksmiths \$2.28, carpenters \$2.42, masons \$2.79, paper-mill operatives \$2.79, printers \$2.18, shoemakers \$1.76, cotton-mill operatives \$1.40, woolen-mill operatives \$1.24, and glassmakers \$1.79. These average wages for leading industries indicate the general increase in wages in all occupations during the fifty years from 1830 to 1880. . . .

Carrying this comparison of actual wages for distinct classes into the building trades, a representative establishment in New York reports the pay for carpenters in 1843 as \$1.50 per day, and in 1891 \$3.50, with the hours of work reduced from ten to eight. The pay of bricklayers and their helpers increased from \$1.75 and \$1.00, respectively, in 1851 to \$4.00 and \$2.50, respectively, in 1891, with a decrease of two hours in working time. The daily wages of draughtsmen and foremen blacksmiths, two widely separated yet dependent classes of labor, as reported by an establishment engaged in manufacturing metals and metallic goods in New York, increased from \$1.75 and \$2.50, respectively, in 1848 to \$5.31 and \$5.83 in 1891. Making a similar comparison for an entirely different class of wage-earners, that of railroad employees, we find the pay of locomotive engineers and firemen increasing from \$2.14 and \$1.06 in 1840 to \$3.77 and \$1.96, respectively, in 1891; during the same period the pay of passenger car conductors increased from \$2.11 to \$3.84. . . .

Considering the wages for the great mass of wage earners, the common and agricultural laborers, during the entire period since 1633, the daily wages for the best laborers advanced from 25 cents to 33.3 cents immediately before the Revolution, to 42.5 cents immediately after, and during June of 1891 the wages of common laborers ranged from \$2.50 in Montana to 75 cents in the Carolinas and \$1.25 in New York. Farm laborers received, during June, 1891, from \$30 to \$40 per month, with board and lodging, in Montana and California, to \$9 and \$10 in the Carolinas and Virginia, and \$15 to \$20 in New York. Masons (master workmen) received 33.3 cents per day in 1633 and \$1.00 in 1790, while during the busy season of 1891 their wages ranged from \$4.50 to \$5.00 in California and Colorado, \$2.50 in North Carolina, and \$2.50 and \$3.36 in Pennsylvania and New York.

The wages paid in numerous occupations can be compared, and in each instance the same, or a similar, advance is shown. The three classes given, however, are sufficient with data given in Chapter IX., to convey an idea of the great increase in the

money wages of all classes of workmen during the two hundred and fifty-eight years. While the number actually employed increases or diminishes with business prosperity or depression, their employment or idleness appears to have had but little effect on the rate of pay. Wages during almost the entire period have had an upward tendency, decreases being the exception and generally only of temporary duration.

Turning from the specific wages paid in some of the leading occupations, it is interesting to study the relative percentage of increase of wages in general. This can be done by assuming that at a certain period wages can be represented by 100, or par, and then calculating the increase or decrease from par in accordance with the facts.<sup>1</sup> Whatever wages were in 1860, they are quoted at 100. Starting from this basic point, it has been found that, taking the wages (which were taken from actual pay-rolls) in twenty-two industries and from nearly one hundred distinct establishments, and making a simple average, the percentages stood at 87.7 in 1840, as compared with 100 in 1860; that in 1866 they stood at 152.4, and in 1891 at 160.7. But it might be objected that a simple average does not indicate the general percentage of increase or decrease; so the figures have been averaged according to their importance, each industry relative to all industries, as represented by the number employed in each. On this basis, taking 1860 as represented by 100 again, it is found that the general average of wages in 1840 is represented by 82.5, in 1866 by 155.6, and in 1891 by 168.6; that is to say, on this basis wages have increased since 1860, as is shown by percentages, to the extent of 68.6 per cent; and this figure shows the course of wages in this country since that year. On the basis of 100 in 1860, the increase has been from 82.5 in 1840 to 168.6 in 1891, the close of the period discussed.

It is difficult always to make a statement concerning the course of prices for any considerable period of time that will be satisfactory to all students. The actual price of different articles does not alone indicate such course, because one article enters into the consumption of the people in slight degree, the price of such article having a wide range, while another article, entering largely into consumption, may be represented by a price quite steady; so there is always contention as to whether the price represented by the basis of con-

<sup>1</sup> This method was adopted by the Senate Committee on Finance in its report on "Wholesale Prices and Wages," being Senate Report No. 1394, Fifty-second Congress, second session.

sumption or the degree of consumption of each group of articles has risen or fallen.

In the Sixteenth Annual Report of the Massachusetts Bureau of Statistics of Labor there are very extensive quotations of the prices of commodities covering the period from 1752 to 1883 and general comparisons from 1830 to 1860. Without going into the details of these comparisons, it appears that from 1830 to 1860 agricultural products advanced in price 62.8 per cent; burning oils and fluids, 29 per cent; candles and soap, 42.6 per cent; dairy products, 38.8 per cent; fish, 9.8 per cent; flour and meal, 26 per cent; fuel, meaning by this wood only, 55.4 per cent; meats, which included turkey in this particular comparison, 53 per cent. On the other hand, prices declined for boots and shoes 38.9 per cent; clothing and dress goods, 24.7 per cent; dry goods, 30.9 per cent; food preparations, 17.5 per cent; letter paper, 35.1 per cent; spices and condiments, 36.5 per cent.

By a consolidation of the percentages showing either an advance or decline in prices for the fourteen classes of articles just cited, the general percentage of increase in price is found to be 9.6 per cent. If, on the other hand, the averages for the same classes of articles be considered, and not the percentages obtained for each class, it is found that the general average increase in prices was 15.7 per cent. The mean of these two percentages is 12.7, and this more probably indicates the correct position of the fourteen classes of articles just named in their general tendency between 1830 and 1860.

If, however, wages for the same period, as given for the various occupations named in the report cited above, be consolidated and averaged, the general average increase shown for the period ending with 1860, as compared with that ending with 1830, is 52.3 per cent. These facts clearly indicate that for that thirty years wages advanced to a much greater degree than prices.

It is fortunate that the public can now have recourse to the report of the Senate Committee on Finance, which has been referred to. Wholesale prices are given in this report for 223 leading articles of consumption from 1840 to 1890, and taking the prices of these articles as a whole, and considering them on the same basis as that on which wages were considered, that is, assuming the quotations for 1860 to be 100, or par, it is found that the percentages are, for 1840, 97.7 per cent relatively to 100 in 1860, 187.7 for 1866, and 94.4 for 1891; or, in other words, prices generally, so far as the 223 leading articles are concerned, fell from 100 in 1860 to 94.4 in 1891.

Placing wages and prices in juxtaposition in a general comparison, it is found that wages, considered relatively to the importance of one industry to all industries, stood at 168.6 in 1891 relatively to 100 in 1860, and that the prices of 223 commodities entering into consumption, on the basis of the importance of each article in proportion to the importance of all, fell from 100 in 1860 to 94.4 in 1891. The conclusion, therefore, must be positive and absolute that, while the percentage of increase in prices rose in 1866 to a point far beyond the increase in wages, prices had, by 1891, fallen to a point lower, on the whole than they were in 1840, and wages had risen even above the high point they reached in 1866.

It should be stated that in these percentages the prices of rents have not been considered. Rents have increased greatly, but taking the rise in rents into consideration, as well as the rise in food products and some other things, and drawing a general conclusion relative to real wages, the statements just made must hold as practically and generally established. . . .

#### CHAPTER XXVII: THE INFLUENCE OF MACHINERY ON LABOR

In the manufacture of agricultural implements new machinery has, in the opinion of some of the best manufacturers of such implements, displaced fully fifty per cent of the muscular labor formerly employed, as, for instance, hammers and dies have done away with the most particular labor on a plow. In one of the most extensive establishments engaged in the manufacture of agricultural implements in one of the Western States it is found that 600 men, with the use of machinery, are now doing the work that would require 2,145 men, without the aid of machinery, to perform; that is to say, there has been in this particular establishment a loss of labor to 1,545 men, the proportion of loss being as 3.57 to 1.

In the manufacture of small arms, where one man, by manual labor, was formerly able to "turn" and "fit" one stock for a musket in one day of ten hours, three men now, by a division of labor and the use of power machinery, will turn out and fit from 125 to 150 stocks in ten hours. By this statement it is seen that one man individually turns out and fits the equivalent of forty-two to fifty stocks in ten hours, as against one stock in the same length of time under former conditions. In this particular calling, then, there is a displacement of forty-four to forty-nine men in one operation.

Looking at a cruder industry, that of brickmaking, improved devices have displaced ten per cent of labor, while in making fire-brick forty per cent

of the labor formerly employed is now dispensed with, and yet in many brickmaking concerns no displacement whatever has taken place.

The manufacture of boots and shoes offers some very wonderful facts in this connection. In one large and long-established manufactory in one of the Eastern States the proprietors testify that it would require five hundred persons, working by hand processes and in the old way in the shops by the roadside, to make as many women's boots and shoes as one hundred persons now make with the aid of machinery and by congregated labor, a contraction of eighty per cent in this particular case. In another division of the same industry the number of men required to produce a given quantity of boots and shoes has been reduced one half, while, in still another locality, and on another quality of boots, being entirely for women's wear, where formerly a first-class workman could turn out six pairs in one week, he will now turn out eighteen pairs. A well-known firm in the West engaged in the manufacture of boots and shoes finds that it would take one hundred and twenty persons, working by hand, to produce the amount of work done in its factory by sixty employees, and that the handwork would not compare in workmanship and appearance by fifty per cent. By the use of Goodyear's sewing machine for turned shoes one man will sew two hundred and fifty pairs in one day. It would require eight men, working by hand, to sew the same number in the same time. By the use of a heel-shaver or trimmer one man will trim three hundred pairs of shoes a day, while formerly three men would have been required to do the same work; and with the McKay machine one operator will handle three hundred pairs of shoes in one day, while without the machine he could handle but five pairs in the same time. So, in nailing on heels, one man, with the aid of machinery, can heel three hundred pairs of shoes per day, while five men would have to work all day to accomplish this by hand. A large Philadelphia house which makes boys' and children's shoes entirely, has learned that the introduction of new machinery within the past thirty years has displaced employees in the proportion of six to one, and that the cost of the product has been reduced one half. . . .

In another line labor has been displaced to such an extent that only one third the number of operatives formerly required is now in employment. In the days of the single-spindle hand-wheel, one spinner, working fifty-six hours continuously, could spin five hanks of number thirty-two twist. At the present time, with one pair of self-acting mule-spinning machines, having 2,124 spindles, one

spinner, with the assistance of two small boys, can produce 55,098 hanks of number thirty-two twist in the same time. It is quite generally agreed that there has been a displacement, taking all processes of cotton manufacture into consideration, in the proportion of three to one. The average number of spindles per operative in the cotton-mills of this country in 1831 was 25.2; it is now over 64.82, an increase of nearly 157 per cent; and along with this increase of the number of spindles per operative there has been an increase of product per operative of over 145 per cent, so far as spinning alone is concerned. In weaving in the olden time, in this country, a fair adult handloom weaver wove from forty-two to forty-eight yards of common shirting per week. Now a weaver, tending six power-looms in a cotton factory, will produce 1,500 yards and over in a single week; and now a recent invention will enable a weaver to double this product. . . .

And so illustrations might be accumulated in very many directions—in the manufacture of furniture, in the glass industry, in leather-making, in sawing lumber, in the manufacture of machines and machinery, in the production of metals and metallic goods of all kinds, or of wooden-ware, in the manufacture of musical instruments, in mining, in the oil industry, in the manufacture of paper, in pottery, in the production of railroad supplies, in the manufacture of rubber boots, of saws, of silk goods, of soap, of tobacco, of trunks, in building vessels, in making wine, and in the production of woollen goods.

It is impossible to arrive at an accurate statement as to the number of persons it would require under the old system to produce the goods made by the present industrial system with the aid of invention and power machinery. Any computation would be a rough estimate. In some branches of work such a rough estimate would indicate that each employee at the present represents, on an average, fifty employees under the old system. In many other branches the estimate would involve the employment of one now where three were employed. Looking at this question without any desire to be mathematically accurate, it is fair to say, perhaps, that it would require from fifty to one hundred million persons in this country, working under the old system, to produce the goods made and do the work performed by the workers of to-day with the aid of machinery. This computation may, of course, be very wide of the truth, but any computation is equally startling, and when it is considered that in spinning alone 1,100 threads are easily spun now at one time where one was spun under the old

system, no estimate can be successfully disputed.

All these facts and illustrations simply show that there has been, economically speaking, a great displacement of labor by the use of inventions; power machinery has come in as a magical assistant to the power of muscle and mind, and it is this side of the question that usually causes alarm. Enlightenment has taught the wage-receiver some of the advantages of the introduction of inventions as his assistants, but he is not yet fully instructed as to their influence in all directions. He does see the displacement; he does see the difficulty of turning his hand to other employment or of finding employment in the same direction. These are tangible influences which present themselves squarely in the face of the man involved, and to him no philosophical, economic, or ethical answer is sufficient. It is therefore impossible to treat of the influence of inventions, so far as the displacement of labor is concerned, as one of the leading influences, on the individual basis. We must take labor abstractly. So, having shown the powerful influence of the use of ingenious devices in the displacement or contraction of labor, as such, it is proper to show how such devices have influenced the expansion of labor or created employments and opportunities for employment which did not exist before their inception and application. A separate chapter is given to this part of the subject.

#### CHAPTER XXVIII: THE INFLUENCE OF MACHINERY ON LABOR.—EXPANSION

As incredible as the facts given in the preceding chapter appear to one who has not studied them, the ability to crystallize in individual cases and show the fairly exact displacement of labor exists. An examination of the opposite influence of inventions, that of the expansion or creation of employments not before existing, reveals a more encouraging state or condition of things, but one in which the statistician can make but very little headway. The influences under the expansion of labor have various ramifications. The people at large, and especially those who work for wages, have experienced these influences in several directions, and contemporaneous with the introduction and use of inventions, the chief economic influence being in the direction of expansion, the other influences being more thoroughly ethical, and these should be considered under that broad title. The statistical method helps in some respects in studying the expansive power of inventions, and especially in the direction of great staples used as raw material in manufacturing processes and in the increase of the number of people employed

relative to the number of the population. If there has been a great increase in the consumption per capita of great staples for manufacturing purposes, there must have been a corresponding expansion of labor necessary for the production of goods in like directions.

Taking up some of the leading staples, the facts show that the per capita consumption of cotton in this country in 1830 was 5.9 pounds; in 1880, 13.91 pounds; while in 1890 the per capita consumption had increased to nearly 19 pounds. These figures are for cotton consumed in our own country, and clearly and positively indicate that the labor necessary for such consumption has been kept up to the standard, if not beyond the standard, of the olden time—that is, as to the number of people employed.

In iron the increase has been as great proportionately. In 1870 the per capita consumption of iron in the United States was 105.64 pounds, in 1880 it had risen to 204.99, and in 1890 to 283.38. While processes in manufacturing iron have been improved, and labor displaced to a certain extent by such processes, this great increase in the consumption of iron is a most encouraging fact, and proves that there has been an offset to the displacement.

The consumption of steel shows like results. In 1880 it was 46 pounds per capita, and in 1890, 144 pounds. The application of iron and steel in all directions, in the building trades as well as in the mechanic arts, in great engineering undertakings, and in a multitude of directions, only indicates that labor must be actively employed, or such extensions could not take place. But a more conclusive offset to the displacement of labor, considered abstractly, is shown by the statistics of persons engaged in all occupations. From 1860 to 1890, a period of thirty years, and the most prolific period in this country of inventions, and therefore of the most intensified influence in all directions of their introduction, the population increased 99.16 per cent, while during the same period the number of persons employed in all occupations—manufacturing, agriculture, domestic service, everything—increased 176.07 per cent. In the twenty years, 1870 to 1890, the population increased 62.41 per cent, while the number of persons in all occupations increased 81.80 per cent. An analysis of these statements shows that the increase of the number of those engaged in manufacturing, mechanical, and mining industries, those in which the influence of inventions is most keenly felt, for the period from 1860 to 1890 was 172.27 per cent, as against 99.16 per cent increase in the total population. If statistics could be as forcibly applied to

show the new occupations brought into existence by invention, it is believed that the result would be still more emphatic.

If we could examine scientifically the number of created occupations, the claim that inventions have displaced labor on the whole would be conclusively and emphatically refuted. Taking some of the great industries that now exist, and which did not exist prior to the inventions which made them, we must acknowledge the power of the answer. In telegraphy thousands and thousands of people are employed where no one has ever been displaced. The construction of the lines, the manufacture of the instruments, the operation of the lines—all these divisions and subdivisions of a great industry have brought thousands of intelligent men and women into remunerative employment where no one had ever been employed before. The telephone has only added to this accumulation and expansion, and the whole field of electricity, in providing for the employment of many skilled workers, has not trenching upon the privileges of the past. Electroplating, a modern device, has not only added wonderfully to the employed list by its direct influence, but indirectly by the introduction of a class of goods which can be secured by all persons. Silverware is no longer the luxury of the rich. Through the invention of electroplating, excellent ware, with most artistic design, can be found in almost every habitation in America. The application of electroplating to nickel furnished a subsidiary industry to that of electroplating generally, and nickelplating had not been known half a dozen years before more than thirty thousand people were employed in the industry, where no one had ever been employed prior to the invention. . . .

It is certainly true—and the statement is simply cumulative evidence of the truth of the view that

expansion of labor through inventions has been equal or superior to any displacement that has taken place—that in those countries given to the development and use of machinery there is found the greatest proportion of employed persons, and that in those countries where machinery has been developed to little or no purpose poverty reigns, ignorance is the prevailing condition, and civilization consequently far in the rear.

The expansion of values as the result of the influence of machinery has been quite as marvelous as in any other direction, for educated labor, supplemented by machinery, has developed small quantities of inexpensive material into products of great value. This truth is illustrated by taking cotton and iron ore as the starting-point. A pound of cotton, costing at the time this calculation was made but 13 cents, has been developed into muslin which sold in the market for 80 cents, and into chintz which sold for \$4. Seventy-five cents' worth of common iron ore has been developed into \$5 worth of bar-iron, or into \$10 worth of horse-shoes, or into \$180 worth of table knives, or into \$6,800 worth of fine needles, or into \$29,480 worth of shirt buttons, or \$200,000 worth of watch-springs, or \$400,000 worth of hair-springs, and the same quantity of common iron ore can be made into \$2,500,000 worth of pallet arbors.<sup>1</sup>

The illustrations given, both of the expansion of labor and the expansion of values, are sufficiently suggestive of a line of study which, carried in any direction, will show that machinery is the friend and not the enemy of man, especially when man is considered as a part of society and not as an individual.

<sup>1</sup> This calculation was made by George Woods, LL.D., of Pittsburg, Pa., and given by him in an address on "Technical Education," in 1874.

## *THE CRISIS OF 1893*

### JOHN DEWITT WARNER

DESPITE GREAT INDUSTRIAL ADVANCES and steady improvements in standards of living, the American economic system knew nothing about smoothing out the sharp fluctuations of the business cycle. An inadequate banking and credit mechanism and the helplessness of government went hand in hand with disorderly speculative activities: revivals led to booms and

booms were followed by contractions and crises. The crisis of 1893—which hit the country in the summer of that year—was aggravated by the troubles of agriculture and by businessmen's lack of confidence in the currency tinkering of Washington.

John DeWitt Warner's (1851-1925) pamphlet shows how, because of the absence of a

central banking mechanism, banks all over the country were compelled to fall back upon all sorts of ingenious devices to relieve the currency stringency. The fear for the gold standard is clearly indicated in Warner's analysis; but, more important, is the description of a

banking system that was incapable of functioning either in time of too great credit expansion or in time of too great contraction.

Warner's pamphlet, *The Currency Famine of 1893* (New York, 1895) was published by the New York Reform Club.

## *The Currency Famine of 1893*

BY JOHN DEWITT WARNER

### CIRCUMSTANCES THAT PRECEDED THE CRISIS

#### GENERAL CONDITIONS

THE CIRCUMSTANCES that preceded the currency famine of 1893 are as yet too recent to be free from controversy as to their causes and consequences. In a general way, however, the situation has already become historic, so that somewhat of an apparently significant succession of facts may properly be noted.

For the ten years preceding 1890, though local disturbances had not been lacking, the commercial, manufacturing and agricultural world as a whole had been enjoying steady prosperity, until the accumulation of raw materials and manufactures was greater than ever before in the world's history; and ten years of prosperity had made general throughout the world that state of mind which prompts borrowers to new enterprises and induces lenders freely to extend credits.

From the beginning of the year 1890, however, growing caution and watchfulness seemed as general as theretofore had been confidence approaching carelessness. The first symptom was generally an attempt to dispose of surplus stocks even at a sacrifice. This brought about a shrinkage of values, which, in its turn, lessened margins and increased the apprehensions of creditors.

On this side of the water a suggestion of the situation is found in the foreclosure during the first six months of 1890 of no less than twenty-one railroad companies, with an aggregate of stock and bonds of \$92,000,000; while the collapse of the Barings in England during the autumn of 1890 called attention to the shrinkage in colonial and South American securities, and to the precarious standing of world famous houses.

#### THE SHERMAN ACT

It was just at this time, too, that the agitation for cheap money reached its highest tide in Congress and the Sherman Act became a law. By this, instead of coinage at \$2,000,000 per month, bullion

certificates at the rate of \$4,500,000 per month were added to our currency, already out of all proportion to the commercial wants of our people; while free coinage—that is, forced coinage of silver at a par of 16 to 1 of gold—was pressed on every hand, largely by those who confessed their aim to be partial repudiation.

It may be questioned how far this last factor contributed to the gravity of the situation here; there can be no doubt that it increased it. For, just at this time, creditor Europe was forced by her necessities to return in large measure our securities which she had theretofore eagerly taken, and we were thrown more and more upon our own resources for capital wherewith to develop our country. To the flood of our own obligations, thus thrust upon us, were now added those of holders who had become apprehensive of American good faith, and who hastened to realize, even at a sacrifice, before they should be made worse off by the repudiation which some of them thought close at hand.

Again, to the sentimental factors noted there was now added what might almost be termed a physical force, tending to drive gold out of the country, and, through our currency system, draining the treasury as well. Just how much currency the business of a country will absorb at any given moment, it is hard to say; but it is nevertheless certain that when the channels of finance are full, additions will cause them to overflow, and that the overflow will be of that portion which is acceptable elsewhere. As is pretty generally agreed, the growing dullness of business had left our currency superabundant as far back as 1890; while in that year the rate at which depreciated silver was poured into it was increased from \$24,000,000 a year to more than double that rate. The effect was as though water were poured into a measure already filled with oil. The Sherman notes, whose circulation was bounded by national lines, went to the bottom of the measure—that is stayed in this country; the gold, free to move—that is, cur-



rent everywhere—overflowed to foreign countries.

Another effect now began to be prominent. To a small extent our holders of mortgages (which in this country are usually for short terms, even though intended as permanent investments) promptly secured themselves by requiring renewals under contracts payable in gold; but many lenders—to some extent from individual hesitancy in exacting unusual terms of borrowers, and to some extent from apprehension lest the legislation threatened in many States against such discrimination might prove valid—refused to make or renew time loans, thus forcing a stagnation of enterprise in many directions and in many others a realization of assets under unfavorable circumstances.

#### HOARDING OF GOLD IN UNITED STATES

Concurrent with this was developed a disposition to hoard gold and to discriminate in its favor by withholding it from payments. That this was markedly true in 1893 is universally understood. It seems to have been forgotten in many quarters how much earlier than that year this practice became general; though an inspection of the treasury accounts shows that in September, 1890, the first month after the passage of the Sherman act, the Treasury lost \$38,000,000 of its gold reserve.

June 30, 1890, the net treasury assets were \$255,893,000, of which \$190,232,000 was in gold and gold bullion. A year later similar assets were \$176,459,000, of which \$117,667,000 was in gold and gold bullion—the “free gold,” that is the amount above the \$100,000,000 reserve for greenback redemption, having been reduced during the year from \$90,232,000 to \$17,667,000.

Recalling that the customs receipts are the principal streams which feed the Treasury, we can investigate one step further. In June, 1890, above ninety per cent. of our customs receipts were in gold. The proportion of gold steadily declined thereafter until in June, 1891, but twelve per cent. of the customs receipts were in gold.

The circle of investigation is complete for the period. The Treasury was diluting the currency by silver inflation at the rate of \$4,500,000 each month; and at the same time it was rapidly losing power to maintain its parity in gold; while the selection by which gold was retained and silver used for payments to Government indicated that gold was being hoarded outside.

#### TREASURY EXPEDIENTS

The National Administration, though doing nothing to avert the crisis, was sensible of its ap-

proach. In the spring of 1891 the Treasury by refusing to furnish gold bars, of which it had plenty, practically charged gold exporters one-tenth per cent. premium; at which price during that year they took above \$60,000,000; and during the summer of 1891 the Government attempted to gain gold by selling legal tender Western exchange at a price sixty cents per \$1,000 less than the normal rates, on condition of being paid in gold, some \$12,000,000 of which was promptly thus secured.

Finally, to accelerate the rate at which we were moving toward disaster, the joint effect of the tariff revision of 1890 and the liberal appropriations of the fifty-second Congress had been to turn the late annual surplus, averaging \$110,000,000 per annum for the years 1888-1890, into a deficit which for the year beginning July 1, 1893, amounted to more than \$69,000,000; so that a constantly weaker Treasury faced a steadily increasing responsibility. The time thus rapidly approached when the sole resource to maintain our currency upon a natural basis would be the steadily diminishing gold receipts of the Treasury; which, so far as concerned customs revenues, had shrunk to less than four per cent. in September, 1892, and never again rose above ten per cent. until in the currency famine of 1893 the hoarded gold coin was forced from the bank vaults.

Such was the course along which the Treasury steadily drifted for years, until in February, 1893, the outgoing Administration by private appeal to its friends secured some \$6,500,000 of gold from New York bankers, just in time to enable it, going out on the 4th of March, to escape the breaking of the dam behind which for years it had seen the waters steadily piling.

As the Cleveland Administration settled into its place the flood was still rising, though not faster than had been the case for months previous. But soon the actual impairment of the \$100,000,000 Treasury gold reserve showed the water trickling over the levee, and on every side each weak spot seemed about to give way.

#### THE CURRENCY FAMINE

For years liquidation had been progressing, and really solvent institutions had been contracting their loans and centralizing their resources, so that they were never better buttressed; but the same process of liquidation had drained the weaker ones of their available funds, and left them with holdings of unmerchantable assets, enormous in the aggregate, which the first break would throw upon an already overburdened market. The very air was charged with ruin. In April, 1893, business failures reported by *Bradstreet's* were 905,



as compared with 703 in the same month of 1892; in May there were 969, as compared with 680 the May previous, and by June not merely had the ratio of disaster further increased above the average, but all over the country, especially in the West, the banks were breaking. Up to May 9th the number of bank suspensions had not been extraordinary—only eleven of National banks during the preceding six months—but on that date the Chemical National Bank of Chicago closed its doors; on the 11th the Columbia National Bank of the same city and the Capital National Bank of Indianapolis followed its example; on the 16th the First National Bank of Cedar Falls, Ia., and on the 18th the First National and Oglethorpe National of Brunswick, Ga., and the Evanston National of Evanston, Ill., suspended. Before the month was over six other National banks had broken; in June twenty-five, and in July seventy-three others followed suit; while the mortality was equally marked among State banking associations and private bankers, so that by August first the condition was one of panic.

Then developed the feature that will forever characterize the stringency of 1893—instructive to those who have not already learned how immaterial is any ordinary supply of legal currency when compared with credit in its various forms, the real currency of the country. For years business credit had been shrinking in the United States—this largely, though by no means wholly, as the result of the constant inflation of our currency by silver legislation at a time when normal business demands for currency were growing less and less; and now this credit was largely destroyed; so that each (largely in proportion to the extent to which his lack of information left him a ready victim to fear) preferred currency in hand to any credit account, however "gilt-edged." Almost between morning and night the scramble for currency had begun and culminated all over the country, and the preposterous bulk of our circulating medium had been swallowed up as effectually as, in a scarcely less brief period, gold and silver had disappeared before the premium on specie a generation before. Currency was hoarded until it became so scarce that it had to be bought as merchandise at a premium of 1% to 3% in checks payable through the clearing house; and to enable their families to meet petty bills at the summer resorts the merchants and professional men of the cities were forced to purchase and send by express packages of bills or coin; while savings banks hawked their government bond investments about the money centers in a vain effort to secure currency. The panic was naturally worst among those of

too little financial standing to use bank accounts for their ordinary business, so that the action of bank depositors but inadequately suggests the general tendency. But the deposits in National banks alone, which had been \$1,750,000,000 May 1st, 1893, were about \$1,550,000,000 on July 1st, and by October 1st but \$1,450,000,000.

It is with the most striking result of this situation that we have to deal. It involved an absolutely unique experience—that of a highly ingenious and enterprising people, inhabiting a wealthy and civilized country, and brought face to face with an absolute necessity for the use of an extraordinary amount of currency, at the same time that they were inhibited by law from ordinary sources of supply.

#### FAILURE OF NATIONAL BANK CURRENCY SYSTEM

Our laws provided but one resource—additional issues of National-bank notes. The National banks were urgently summoned to perform their most important legitimate function—that of giving elasticity to a currency admittedly rigid at every other point. The only result was to demonstrate the worthlessness of the National banking system itself.

We had had it for thirty years. Its original aim had really been, not to provide bank note currency—there was a plethora of that when the National banking system was established—but rather to starve the business public into purchasing Government bonds as a condition of being permitted to do business at all.

So far was it from accommodating itself to the wants of developing communities that it took \$11 in funds free for investment in any given locality to secure for that locality \$9 in currency. So far was it from expanding to meet the growing demands of the country that, while twenty years ago the then outstanding \$340,000,000 of National-bank notes represented more than 45 per cent. of all our circulation, ten years later the \$347,000,000 of similar notes then outstanding represented but 28 per cent. of our currency, and in June, 1893—the latest date at which conditions were normal—the \$172,000,000 of National-bank notes then in circulation outside of the Treasury were less than 11 per cent. of our currency, of which they had ceased to be a material factor.

So far was it from being elastic that we had come to expect a period of stringency in each year—in the late summer and early autumn—which invariably arrived; while a careful survey of the course of our National-bank note circulation showed that the general tendency, at first to its increase and afterwards to its withdrawal, had

absolutely no connection with present or prospective, however certain, business demands for currency. National banks had long since ceased even pretended obedience to law, and habitually made discounts in times of stringency in the face of depleted reserves. This practice was possible because the initiative was in the hands of the banks, and the Government had power only to punish; a power which it forebore to exercise.

In the other particular, however, that of furnishing currency, the initiative was in the hands of the Comptroller. The banks were thus powerless to break the law, no matter how beneficent might have been such violation. And nothing is more instructive than to contemplate the futile writhing and contortions of our National-bank note currency system in the strait jacket with which it had been pinioned, and to see the not merely inadequate, but positively ludicrous, results of its strenuous efforts to respond to the most urgent demands for relief that this generation has heard.

The increase of our currency by additions to National-bank circulation during the stringency was only about  $1\frac{1}{2}$  per cent. and was far less than the amount by which the banks of a single city virtually increased it by clearing-house certificates alone—little more than half the amount by which individual bankers increased it by actually buying gold in Europe and shipping it hither—and was in great part accomplished only after the necessity for it was over, millions of dollars of the additional currency taken out being returned to the treasury with the packages unbroken.

It was to such a dead fetic that our stricken business appealed when caught in the panic of August, 1893. Never was there offered a more conclusive proof of the self-reliance of our citizens and the superiority of business expedients over Government direction. Not merely by financiers in our great cities, and by great corporations experienced in handling such crises but in every part of the country, with the exception of the far Southwest, did the people work out their own salvation.

#### EMERGENCY CURRENCY

The experience of August-September, 1893, was unique. There were no gradually developed plans for mutual assistance. Mutual helpfulness there was in plenty between individuals and localities; but it was in prompt response to sudden appeals; and before any general system could be devised the occasion for it was over. Financial clouds had long been lowering; but it was within a single month that the currency famine became general, its worst effect felt, such relief as was had ex-

tended, and the crisis over, with a tendency toward a glut of circulating medium.

In other cases, nations or communities had simply found themselves thrown upon their own resources. Our people found themselves not merely drained of currency but forbidden by most carefully drawn statutes to utilize the expedients which would have been most natural and most effective. No civilized nation has ever experienced such a currency famine. None has ever found itself so fettered by positive law in its efforts to rescue itself. None ever so promptly arose to the emergency. Never was there so prompt a return to normal conditions.

It is this that I have found a peculiarly interesting study. Not that I have been able to estimate or even trace it in anything like full measure. One of its most striking peculiarities was the extent to which—partly on account of the suddenness with which it was called for and the promptness with which the need of it was over—partly, perhaps, because everyone assumed that its use was in defiance of law—the actual practice in each locality was in general unknown outside of it, and evidence and mention of it hard to secure afterwards.

The specimens I quote are, therefore, but a few score of the hundreds of cases that careful inquiry would reveal; and, except in the case of clearing house certificates proper, give but a faint idea of the extent to which in all parts of the country this emergency currency sprang into being. They are, however, I trust sufficiently varied to illustrate the methods used and the more characteristic sorts of currency—as distinguished from more strictly "credit" expedients—that were thus called into being.

*Clearing House Certificates.* First come actual clearing house certificates—new, not in invention, but rather in the novel extent of their use. Their office was simply to extend indefinitely the brief term of mutual credit involved in all clearing house settlements. Contrary to the general impression, they were not used as currency; but their effect was to add just their face to the volume of currency in circulation, by releasing, for use outside, that which would otherwise have been reserved for clearing house settlements. So far as the banks using them transgressed law, it was in renewing loans and extending discounts when their reserves were depleted below the legal limit. The use of clearing house certificates simply enabled this to be done with less risk of other than legal consequences.

And to the writer, not the least interesting of the data that he has gathered in this connection has been the proof—in instance after instance—where

he has been proudly assured that a particular city had not been forced to extraordinary expedients such as had been seized upon in their desperation by less favored centers—either that the booster had been saved by aid extended by those whom he so patronizingly pitied, or that the self-sufficient town had already adopted such practices that its ordinary way of doing business left nothing in the way of liberal financiering yet to be exploited. It was to the banks that did use clearing house certificates in the emergency that the country owes its escape from unparalleled disaster; and at once to anticipate and answer all inquiries as to the form and use of the legitimate clearing house certificates.

Denominations were as follows: New York, \$20,000, \$10,000 and \$5,000; Philadelphia, \$5,000 only; Boston, \$10,000 and \$5,000; New Orleans, \$500 to \$10,000; Baltimore, \$6,000, \$3,000 and \$1,000; Pittsburg, \$10,000, \$5,000 and \$1,000; Detroit, \$5,000 only; Buffalo, \$5,000 and \$1,000. Their issue, it will be noticed, was mainly in the Northeast, New Orleans being the only Southern and Detroit the most Western example. And in each case it will be observed that use of the certificate is limited strictly to settlement of mutual accounts between members of the clearing house association in question.

Other devices of similar character were "Clearing House Due Bills," exchanges of clearing house balances, such as are so generally used at Chicago, that an extension of their use made unnecessary special issues of clearing house certificates; and utilization of the custom in smaller cities of considering exchange drawn on "reserve cities" as equivalent to cash in transactions between banks.

Next in order, and in some respects the most interesting of all, were the notes called clearing house certificates, but in fact intended for circulation, frequently issued by temporary committees of banks in towns where no clearing house existed, and—though thoroughly effectual for the worthy purpose for which they were issued—a travesty on the paper after which they were named. The term "clearing house certificates" was, however, used, not with the idea of deceiving any one, but as the only ready-made term that indicated the one fact that the public cared to know—viz., that the associated banks of the locality were bound to make them good. . . .

*Certified Checks.* Another expedient, favored in all parts of the country, was the sale by banks of certified checks against themselves for currency denominations which, when signed by the purchaser, were used by him as currency. The few given are illustrations of hundreds of instances

which seem to have been pretty evenly distributed in all parts of the country except the Southwest.

*Pay Checks.* Most generally used of all, however, were pay checks in currency denominations, which, in scores of manufacturing towns, mainly in the Northeast, but largely in the West and Southeast, were the only currency that was available for weekly payrolls and cash purchases by wage earners.

*Miscellaneous Expedients.* In addition to these well defined classes, there were others so varied that but a suggestion of them can be made here—negotiable certificates of deposit; ninety-day and other short time paper in currency denominations, with and without interest; bond certificates; grain purchase notes; credit and corporation store orders; improvement fund orders; teachers' warrants; shingle scrip; specimens of each of which are given below, and which are noteworthy here as the adaptation to use for general circulation, by issue in small currency denominations, of paper devised for other and widely differing purposes.

The foregoing will, I trust, have indicated somewhat of the resourceful vigor with which we met a sudden demand. And the result was as creditable as was the promptness with which our people arose to the occasion.

#### THE COURSE OF NATIONAL BANK CURRENCY

But the performances of the National banking system turned tragedy into farce.

June 1, 1893, there was a surplus of about \$21,000,000 in excess of legal reserve lying in New York banks awaiting investment, and the amount of National bank currency then outstanding was about \$177,000,000. During that month the surplus reserve in the New York banks decreased to \$1,250,000, while the National bank notes outstanding increased to \$178,700,000. August 1, the bank funds were drained \$14,000,000 below their legal reserve; the demand for money to move the crops was increasing, the stress was almost a panic; yet the National bank currency had increased but \$5,000,000. September 1, the situation was improving, and the deficit had fallen to \$1,500,000; and, now that it was less needed, the National bank note circulation began to expand rapidly and stood at \$199,000,000.

October 1, the deficit had turned to an embarrassing surplus of \$28,000,000; but the National bank currency expansion was as hard to stop as it had been to start, and aggravated the plethora by an increase of \$10,000,000 during September—on October 1 standing at \$208,700,000. November 1, the idle funds had increased to over \$50,000,000, but the National bank issues were still expanding,

standing on that date at \$209,300,000. December 1, the unused surplus had risen to \$76,000,000, but the National bank circulation had contracted less than \$500,000. January 1, 1894, the banks had \$80,000,000 more than anybody wanted, but the National bank issues had remained stationary for three months at above \$208,000,000. By February 1, the surplus seeking employment had risen to \$110,000,000, while the National bank note circulation was still about \$208,000,000; during February the \$50,000,000 loan to the Treasury was floated, the most of which was taken from this surplus; yet it stood on March 1 at \$76,000,000; on April 1, at \$81,000,000; on May 1, at \$83,000,000, and meanwhile the National bank currency had remained stationary at about \$208,000,000.

In June, 1893, therefore, when there was the greatest demand that this country had ever seen for currency, the National bank issues constituted a smaller percentage of our total circulation than at any other time except during the preceding year; the almost frenzied efforts of the National banks were utterly futile in bringing material assistance until after the crisis had passed; and the result of their attempt to aid us has been to keep an increased volume of National bank currency outstanding, while the amount of unemployed currency was greater than it had ever been before, at the highest point it has reached for five years. And this is not all. The law permits but \$3,000,000 contraction monthly in any event. It will not be possible, therefore, to get back to a normal basis before the annual stringency due next September.

#### RESULTS

Throughout New England, so generally that it may be deemed to have characterized its manufacturing centers; in so many portions of the South that it might be considered general there; in the West and in the Northwest; sporadically in the Middle States, the necessity for local currency developed at once a supply of it; and, where this was not the case, from city after city comes the word of how unfortunate were those who, not assisted by the enterprise of others, had none of their own to fall back upon. There is one general exception to be made—an exception which, however, proves the rule. It is this:

To the precise extent that—either by the use of clearing house certificates within the law, or by the violation of law in continuing discounts when their reserves were depleted—the banks of any section thus met the emergency, their customers and the community dependent upon them were relieved from the necessity which so generally came upon others of providing a special local cur-

rency. It was the New York banks that issued the greatest amount of clearing house certificates, and at the same time continued to assist their customers, even while their reserves were depleted; and, therefore, it was in the neighborhood of New York and her own great manufacturing establishments, in those of Newark, of Brooklyn, and of Long Island City, that it was unnecessary to look further for a supply of the currency they needed. The same was the case in Philadelphia, Chicago, Boston and their neighborhoods, in each of which cases either clearing house certificates, or loans of clearing house credits, enabled strong banks to aid weak ones. But in every case where the associated banks of a section were not in a position to supply the lack of currency or obviate the necessity of its use, individuals and corporations were compelled to do this.

In this way after the machinery so carefully adjusted by Government had utterly failed to work, the business common sense of our people readjusted its finances; and in every part of the land business started up again, manufacture continued, the laborer received his hire, and the merchant disposed of his goods. In not an instance, so far as I have been able to learn, did any community find any trouble in the use of what, in the absence of all restrictive laws, would have been—and what in defiance of them actually was—a perfectly natural bank-note currency. The whole American people promptly accepted—each locality upon its knowledge of the conditions there—the paper of individuals and institutions. And as a result of this experience—most widespread, and had under conditions least favorable to security other than the integrity of those who issued the notes, and the intelligence of those who were asked to accept them—there was not a single dollar lost.

Such was the honorable record of the emergency currency of 1893.

#### HOW RELIEF CAME

By September 1st, 1893, the passage by the House of the repeal of the purchasing clause of the Sherman Act had both stopped inflation and quieted the worst apprehensions; and to \$30,000,000 additional national bank currency and the volume of the emergency currency noted, which can be but vaguely estimated at \$80,000,000, was already being added the \$40,000,000 of gold which had been purchased in Europe for import hither. The panic collapsed as suddenly as it had been blown up; and, with dull business conditions for a year to come, the currency proved excessive.

With accession of confidence among the masses the petty hoards were returned to the savings

banks or paid out to merchants, and by them used to swell their bank credits; so that from \$1,450,000,000 in October 1, 1893, the aggregate deposits in National banks alone arose to \$1,529,000,000, December 19, 1894; \$1,586,000,000, February 2, 1894; \$1,671,000,000, May 4, 1894; \$1,678,000,000, July 18, 1894, and \$1,728,000,000, October 2, 1894. The emergency currency gave no trouble. By the process of natural redemption it disappeared so promptly that before the end of the year specimens became curiosities.

Such was the crisis of 1893, a situation brought about by the wanton interference of Government with business not its own; aggravated by legislation which had to be broken before the people could help themselves; relieved by enterprise overriding and evading restrictive law; and turned into a theme for the gayety of nations by the grotesque exhibition thus afforded of how depraved was the elaborate bank note currency system, upon which had been lavished so much of thankless labor.

## THE MONEY DEBATE

WITH THE CRISIS of 1893 and the continuing depression, Populists and agrarians generally became convinced that the root of all evil was to be found in an inadequate currency. The money debate, in America, therefore took on curious, flamboyant and emotional tones. The literature—on both sides—usually had little relation to economic fact; and, indeed, next to no effort was made to explore fundamental causes. That agriculture was suffering from a faulty credit mechanism—there was a complete absence of long-term and intermediate-term credit facilities—was completely lost sight of as the participants in the debate wrangled over silver and gold.

*Coin's Financial School* (the work of W. H. Harvey and published in 1894)—an amazing piece of propaganda and misinformation, filled with tales of plots and conspiracies—had an enormous popularity. It had many imitators, consequently, of which one of the better ones was Ignatius Donnelly's *The People's Money* (Chicago, 1895). Donnelly is not quite as brash as "Coin" Harvey; but he is almost as naïve and certainly as evangelical in fervor. The people, by political action, will triumph and, next to God, government fiat money is the "biggest thing on the planet."

J. Laurence Laughlin (1850-1933) entered

the lists against Harvey and Donnelly and went up and down the country debating the silverites and fiat-money advocates. Laughlin had been trained at Harvard and had come to the new University of Chicago as professor of political economy. His *Facts about Money* (Chicago, 1895) is the record of one such debate. Laughlin seeks to answer seriously the misstatements of Harvey. And one of his more telling points has to do with the relationship between prices and gold. It is this chapter which is reprinted here. But Laughlin can be almost as emotional as Harvey and Donnelly, and at one place in his argument he is ready to accuse the silver interests of a conspiracy to destroy American civilization and drive us into economic barbarism along with silver-standard China and Mexico.

The result was confusion, of course, and the election campaign of 1896 was carried on in a highly charged atmosphere. It was not until 1913-16 that the first serious and statesmanlike efforts were made in the United States to do something about agricultural credit. (The relevant documents are presented in Part IX, below.)

The selections here reprinted are from Donnelly's *The People's Money* and Laughlin's *Facts about Money*.

*The People's Money*

BY IGNATIUS DONNELLY

## THIRD DAY

## THE GOSPEL OF GREED

"GOOD MORNING, Mr. Sanders. Are you too tired to talk this bright day?"

"Not at all; there are some themes I never tire of. I can say with Hamlet:

"Why, I will fight with him upon this theme,  
Until my eyelids do no longer wag."

"Talk is words; but behind this discussion are tremendous things—the progress of development, the happiness of the world, the whole onflood or arrestment of humanity."

There was a pleasant-faced, fair-haired lady, of two or three and twenty, sitting upon the next seat across the aisle of the car. At this point she spoke up, addressing Mr. Sanders.

"Pardon," she said, "my mingling in your conversation; but I could not help but hear much of it yesterday, and I was greatly interested. I would like to ask you a question."

"Certainly," replied Mr. Sanders.

Mr. Hutchinson rose to his feet and said:

"Take my seat, madam, alongside of Mr. Sanders. You will hear better, and it does not affect me to ride backwards."

"Thank you," said the young lady, changing her place.

"I do not know," she continued, "anything about the financial questions, and I find many gentlemen equally ignorant; but I perceive that something is wrong. Three years ago my father was esteemed a rich man; now he is so poor that our family is broken up, and I am on my way to California to visit my father's brother, and hope to get a position as a teacher, so that I will not be a burden on any one. But I cannot understand why it is, while the earth retains its fertility and mankind continue industrious, that labor cannot perpetually create wealth; why it is that food is less in price than the cost of producing it, and yet millions cannot secure enough to buy it?"

"I tried to show yesterday," replied Mr. Sanders, "that these evils are due to a limitation upon the governmental medium of exchange, called money; an artificial interference with the natural conditions you speak of; a something, created by man, which cries out to the earth, 'stop multiplying thy seed;' to the muscles of man, 'stop thy toil;' to the mine, 'close up thy mouth;' to the ship, 'sweep

no more before the streaming and triumphant wind;' to the wild beasts, 'you are safe in your fastnesses, for man shall advance no more;' to the whole human family, 'stand still and shrink and suffer.'"

"But is there not," asked the young lady, "a deeper cause than all this? Why, at this stage of the world's development, should this great calamity burst forth upon the world?"

"You are right, madam," replied Mr. Sanders, "there is a deeper cause—a something grounded on the very nature of the animal man. It is

## HUMAN SELFISHNESS

"There are, we are told by the scientists, two great agencies operating upon the heavenly bodies—the centripetal force and centrifugal force; the one draws them together, and the other keeps them apart. The sun, by the first, would drag the earth into the fiery embrace of its gigantic flames; the other would send it flying off into boundless space. In the just balance and equipoise of these two huge powers the planets are held in their orbits and the harmony of the universe preserved.

"So there is in human nature a centripetal force of selfishness which draws everything to the individual; and a centrifugal force called philanthropy, which reaches out to the mass; and it is only by the interplay of these great powers that human society is possible. . . .

"And *kraft*, power, degenerates into *craft*, cunning; and *king* is derived from the same root as *cunning*. No better man lives than the individual Englishman, but this ruling class, in all ages, has been cruel, arrogant and heartless; as merciless to its own people as it was to all the rest of the world. But we need not abuse them. They are worse than others probably because they have had more opportunity than others. The qualities that go to make oppression are simply inordinate selfishness, which grabs all it sees and would make a dining table of the bodies of its dead victims. It has given up cannibalism, simply because there was an abundance of other kinds of food; but there isn't much difference between eating a man's body and devouring his substance so that he perishes. One is a physical, the other a moral cannibalism. And there are many men who would rather be eaten after death than eaten before death.

"But, oh! greed, greed, greed! . . .

"This whole battle between gold and silver is

nothing but the outcome of 'the hog in human nature.'"

"Indeed," said the young lady, "how do you prove that?"

"Simply enough," replied Mr. Sanders.

#### THE GOLD AND SILVER QUESTION

"Gold and silver were not made money by law. No international convention ever met, in the first instance, in the past ages, and agreed to adopt them. As I said the other day, they were first the *sacred* metals of our ancestors, and then became the *precious* metals, because they were used to adorn the temples of the earth's greatest gods, the sun and the moon. Merchants bought them wherever they traded, along savage or civilized coasts, because they knew the priests, on their return home, would give them food and clothes and jewels for them. But their whole use is a survival of primeval superstition. Their beauty and compactness made them, it is true, desirable, and so they passed from hand to hand in a world-wide barter; and hence, when governments came to coin money, the stamp was naturally affixed to fragments of these convenient yellow and white metals. They were valuable before they were money, and money before they were coined; and the barbarian races—rude and crude—had no idea of money that could not be weighed and melted; like some of our modern philosophers who will not believe there is anything in the universe that is not a ponderable entity. The limitations of their senses they mistake for the limitations of Divinity; and what they cannot see they swear is not. And hence we have a superstition of too little belief in place of the old-time superstition of too much belief. One set of old women has been driven off, and another set of old women, of the other sex, called philosophers, substituted in their place.

"Well," he continued, "just as the sun and moon moved through the heavens, in silent and harmonious beauty—the greater and the lesser lights—so these metals which represented them, the one golden and sun-like, the other silvery and moon-like, rode through the domain of human civilization, holding a relation in value much like the relation of the sun and moon in apparent size and power. And as God permitted kings, as temporary leaders, until republics could be established, so he gave to man the use of these metals, until the power and majesty of vast and civilized peoples could be understood and stamped upon paper, and the intrinsic money theory forever relegated to the limbo of old world superstitions.

"But down the ages these two metals came hand in hand for probably more than 20,000 years.

There is no doubt they were the sacred metals of Atlantis eleven thousand years ago; and the legends tell us that there were ten thousand years between the settlement of Atlantis and its destruction. During many ages, when sun and moon worship was the religion of all civilized peoples these metals were honored next to the heavenly luminaries themselves.

"In all that vast lapse of time no attempt was ever made to divorce them until a quarter of a century ago, except in one instance, and that was in the year 221 A.D., and the lessons it teaches are most prophetic. Through Egyptian, Assyrian, Grecian and Roman civilization, the yellow and the white metals moved hand in hand, as the basis of commerce and the symbols of wealth. But in A.D. 221, in the reign of a vile emperor, for the purpose of still farther oppressing the suffering tax-payers of Rome and its provinces, and increasing the value of the money in which the taxes were paid, it was resolved to demonetize silver and make gold the only legal tender. The consequences were very much the same as those which have overtaken ourselves. A recent writer says:

"Consequently prices fell lower and lower, the money-lenders received more and more in interest and principal, taxes became more and more burdensome, and producers were further discouraged by the constant depreciation of their property, which gradually fell into the hands of the creditor classes. The property of the producing classes being exhausted without paying their debts, they became the slaves of their creditors. All incentive to energy was destroyed and the classes that once formed the strength of Rome, from which the invincible legions were drawn—reduced as they were to slavery—were ready to welcome any change as a relief. At the same time while the producing classes were reduced to a state of slavery, the creditor classes fell into a state of growing moral corruption—a state that is always brought about by the possession of unearned gains. Thus reduced to impotency by slavery, ignorance, heathenism and moral corruption, the Roman Empire fell an easy victim to the hordes of barbaric Germans, who marched from one end of Italy to the other without meeting any serious resistance." . . .

#### THE SUN AND MOON

"But the point I was trying to call your attention to was that, just as the sun and moon moved together through the heavens, so these, their typical metals, moved side by side, for hundreds of centuries, in the affairs of mankind; and that it would be as great an invasion of the orderly ar-



rangements of nature to seek to pluck the moon from its orbit as it was to tear the white metal from the commercial firmament.

"If any great cause had rendered it probable that such a course would be advantageous to mankind, then it would have been proper for the civilized nations to have fully considered it, in newspapers, conventions, legislative chambers, and in discussions by a million firesides; weighing carefully all the arguments for and against such a step, before taking action upon it. See the tremendous debate that is now going on, all over the world, as to the restoration of silver to its ancient orbit. Even such a debate, with such a clamor of tongues, with such an array of facts, figures and authorities, should have preceded any attempt to tear it out of the commercial sky. Instead of that, silver was not the victim of an open and public war; it was secretly slain by the stiletto of hired banditti, in the darkness of the night."

#### HOW SILVER WAS DEMONETIZED

"That charge," said Mr. Hutchinson, "has been made a hundred times and a hundred times disproved."

"Yes," said the young lady, "I read an article on the subject in 'The Light of Zion,' the day before I left home, which clearly shows that it was publicly repealed with the full knowledge of the whole country. I do not know much upon the subject myself, but I cannot believe a respectable newspaper would misrepresent the facts."

"Misrepresent!" cried Mr. Sanders; "why, my dear young lady, the newspapers of to-day would misrepresent anything. If there was any considerable sum of money to be made by it they would unite in denying the existence of God! If a million dollars were at stake they would so black-guard the memory of George Washington that the State of Virginia would rise up and throw his ashes into the Potomac! 'Misrepresent!' God gave man the alphabet, and the devil gave him the daily press. The first widens the area of his knowledge and the second perverts truth and darkens understanding."

"But here," he continued, "is the proof that the demonetization of silver was a secret fraud and trick and crime. Go search all the newspapers of the United States for the year 1873, for weeks and months before and after the passage of the act, and you cannot find the slightest reference to the fact that the mints of the United States had been closed against the coinage of a money-metal more ancient than the pyramids or the tower of Babel. Not a word; not a syllable. There were numerous telegrams from Washington, at that time, on all sorts

of inconsequential matters, but not a sentence as to a change in our laws which is now widely and deeply agitating the people of our whole country, and indirectly of the whole world.

"Take all the platforms, state or national, of all the parties, since the formation of our government down to and including 1873, and I challenge the defenders of this iniquity to put their fingers upon a single declaration demanding the demonetization of silver, or demanding anything hostile to the white metal. There is nothing of the kind. By what right did Congress dare to make such a radical and fundamental change in the financial system of this country without being urged to do so by any political party of any kind? Nothing but bribery and corruption of the rankest description could account for such a step.

"Call the roll of all the eminent men of this nation, since the constitution was adopted, down to and including 1873—men of all creeds and parties and sections—and where can a word or a line be quoted from any of their written or spoken utterances, asking that the doors of the mints be closed in the face of the prehistoric white metal? There is not one. Do you know of any?"

"I cannot say I do," replied Mr. Hutchinson.

"Well, do you know of any declaration of any platform, prior to 1873, demanding the demonetization of silver?"

"I have not looked into the matter," said Mr. Hutchinson, "and therefore cannot answer your question."

"I will go a step farther," said Mr. Sanders. "I undertake to say that from 1873 to this hour no national political party has ever dared to commend or make itself responsible for that act of 1873, or to sustain the demonetization of silver, except by trick and indirection."

"Do you mean to say," inquired the banker, "that the Republican party did not, in 1892, declare for the gold standard?"

"Certainly not," said the farmer. "Here is what they said" (consulting his note book):

"The American people, from tradition and interest, favor bi-metallism, and the Republican party demands the use of both gold and silver as standard money, with restrictions and under such provisions to be determined by legislation, as will secure the maintenance of the parity of values of the two metals, so that the purchasing and debt-paying power of the dollar, whether of silver, gold or paper, shall be at all times equal."

"Ah," said Mr. Hutchinson, "there you see the proviso is bigger than the resolution."

"I have no doubt," was the reply, "that the man who drew that plank intended it for a trick and

a subterfuge; but even then there is no approval of the act of 1873, and there is nothing in it inconsistent with the restoration of silver to its ancient position."

"I do not so understand it," said the other. "Observe what it says about 'parity of values' and debt-paying powers. Does not that mean demonetization of silver?"

"I do not undertake to say," was the reply, "what the trickster meant who drew it, but the resolution, I repeat, is not inconsistent with true bi-metallism. The 'parity of values' we had at all times prior to 1873. If there was any difference it was on the side of silver, which was at a premium over gold when it was demonetized. And even now, in spite of demonetization, the silver dollar in this country is at a parity of value with the gold dollar, and yet there is no law to compel the government to redeem silver in gold."

"Do you mean to say," inquired the young lady traveler, "that silver was worth more than gold when it was denied the right of being coined?"

"Certainly," said Mr. Sanders. "That is well understood."

"What excuse was there, then," she inquired, "for demonetizing silver, especially if no political party and no leading statesmen had demanded it?"

"There was none. It was sheer villainy. Not even the supple newspapers asked for anything of the kind. In the midst of silence, and in the darkness of the night, the evil deed was consummated, and to this hour nobody will stand sponsor for it."

"I deny," said Mr. Hutchinson, "that it was done in the darkness of the night." . . .

#### HOW THE CRIME WAS ACCOMPLISHED

"That the demonetization of silver was, as these Congressional witnesses testify (and every word, be it observed, is taken from the official record, page and book given), that it was, I say, a 'colossal swindle,' the work of a 'burglar in the house at midnight,' is shown by the very nature of the bill. Was it entitled 'an act to demonetize silver?' Not at all. It seemed to be purely a measure in relation to the mints and the details of coinage. Nor does it anywhere appear that the act, by any section or part of section, pronounces the doom of the white metal in any direct fashion. Not at all. The deadly work is accomplished not by a declaration of purpose or principle, but by an *omission*, in a catalogue of coins, to name the standard silver dollar of the fathers! Here is the cunning shape in which the villainy hides itself—this is the language that did the work we are all lamenting to-day:

"That the gold coins of the United States shall

be a one dollar piece, which, at the weight of twenty-five and eight-tenth grains shall be the unit of value.

"That the silver coins of the United States shall be a trade dollar, a half dollar or fifty-cent piece, a quarter dollar or twenty-five-cent piece, a dime or ten-cent piece; and said coins shall be a legal tender at their nominal value for any amount *not exceeding five dollars* in any one payment.

"That no coins, either gold or silver, or minor coinage shall hereafter be issued from the mint, other than those of the denominations, standards and weights herein set forth." (17 statutes, 424.)

"Imagine an honest member of Congress trying, in the midst of the uproar of legislation, to keep track of what that bill meant. He could only do so by comparing it word for word with the existing statute; thereby he might have discovered that the standard dollar was omitted from the list of silver coins. . . .

"But our Republican newspapers," said Mr. Hutchinson, "have claimed that whole columns of the Congressional Record were devoted to the discussion of the bill."

"That is another trick," replied the farmer; "a bill to codify existing laws as to the mints had been up before two or three successive congresses, and had been discussed, but the discussion did not touch the question of the demonetization of silver. Indeed, the bill of 1873 as it passed the house contained the standard silver dollar, but, as Senator Allison says, it was '*doctored*' in the Senate, and the standard dollar was stricken out and the 'trade dollar' substituted, and this was declared legal tender only for debts of five dollars or less. There is where the knife went in."

#### THE TRADE DOLLAR

"What was the trade dollar?" inquired the young lady.

"It was called the 'trick dollar,'" replied Mr. Sanders. "It contained 420 grains of silver, while the standard dollar contained only 412½ grains. It was part of the work of the conspiracy. It was coined on the pretense that it would be preferred by the people of China and India, in trade, because it contained more silver. It was really made to fit into the niche of the demonetization of the standard dollar. It was easier to slip in 'trade' for 'standard' in the act than to name no silver dollar of any kind. That vacuum might attract attention."

"What became of the trade dollar?" inquired the young lady. "I do not remember seeing any of them."

"No; they soon disappeared," replied Mr. Sanders. "Three years after they had been fraudu-

lently used to displace our legal tender dollars, the subservient Congress passed an act, July, 1876, which provided that 'the trade dollar shall not hereafter be a legal tender.' That finished their hash."

"How so?" said the young lady.

"The bankers, Mr. Hutchinson's brethren," said Mr. Sanders with a smile, "having deprived them of their legal tender character, and the object for which they had been coined having been accomplished, refused to take them for more than 90 cents on the dollar; and the price at once fell to that. They showed great magnanimity; they might just as well have made it 40 cents on the dollar. Every one who had a legal tender dollar had to take it to a bank and swap it for ninety cents, and take his pay in standard dollars. Thus he exchanged 420 grains of silver for  $412\frac{1}{2}$  at a discount of 10 per cent.; gave more for less and paid a bonus to effect the trade."

"Why," said the young lady, "I thought the value of money was fixed by the intrinsic value of the metals of which it was composed."

"All nonsense," replied the farmer. "There is the demonstration of it. The coin with  $7\frac{1}{2}$  grains more of silver in it would not circulate at all, because it was not legal tender, while the coin with the  $7\frac{1}{2}$  grains less silver, being legal tender, is worth 10 per cent. more than the coin of greater intrinsic value. Intrinsic humbug!"

"Ah, there is the mistake all your school of statesmen make," said Mr. Hutchinson. "You rest all your faith on 'fiat.' But it is time to give up the discussion. I see our young friend is yawning. Let us resume the subject to-morrow."

"I am not at all tired," replied the young lady. "Indeed, I am intensely interested. I have obtained many new ideas. We women are going to vote some day, and we should inform ourselves on all governmental questions."

### *Facts about Money*

BY J. LAURENCE LAUGHLIN

#### CHAPTER XIII: SHRINKAGE OF PRICES AND SCARCITY OF GOLD

THE CONSTANT ITERATION of statements about the scarcity of gold, the "demonetization of silver" in 1873, and the fall of prices since 1873, have led many people to acquiesce in the opinion that a shrinkage of prices has taken place since 1873 owing to a contraction of the metallic circulation. This belief has been too long accepted without an examination of the facts underlying it. Facts, not theories about what may happen if something is done for silver, are now needed. Since silver has been given up quite largely by Europe in and after 1873, the argument generally rests on the insufficient supply of gold. As gold is now the usual money of commerce, and since prices have fallen, it is argued that gold has risen away from goods. And to strengthen this reasoning, it is said that silver and goods have kept together in price relatively to gold; so that the apparent fall of silver and goods is said to be really only an appreciation of gold. And if silver and goods did really keep together in value this argument might have some plausibility. For if silver should buy as many goods to-day as in 1873, it might naturally appear that silver and goods had not fallen, but that gold had risen away from them. On these points let us examine the facts.

(1) The argument that the general fall of prices

since 1873 has been due to a scarcity, and consequent dearth of gold, is fatally defective, because it does not agree with the facts. In looking at general prices, money on the one hand is to be compared with all commodities on the other hand; if the fall in prices has been due to a scarcity of gold, the effect should have been felt upon all the commodities in general which are compared with gold. The table of Hamburg prices of 100 articles published by Dr. Soetbeer furnishes material to test this question. I have collected twenty-one articles, out of the 100 quoted at Hamburg, which show an upward tendency, by comparing the average prices of 1881-85 with those of 1874-75. The average of the numbers representing the prices of these twenty-one articles in the period of 1871-75 was 164.2, and in 1881-85 183.8. In the same lists there can be found at least twenty-one articles which have shown a decided tendency to fall in price. The remaining articles do not show a market movement in either direction. Forsell makes an interesting analysis of the whole 100 into two groups, classifying those which show a tendency to rise and those which show a tendency to fall. In the first class he includes fifty-one articles, and in the second forty-nine articles, with the following results in averages:

	1847-50	1851-60	1861-70	1871-75	1876-80	1881-85
I. . . . 100	125.3	130.3	147.1	143.7	146.4	
II. . . . 100	109.7	114.6	121.7	103.7	96.7	

Whether to draw inferences as to a scarcity of gold from forty-nine articles, or to infer that gold was abundant, according to the prices of fifty-one articles, is an awkward dilemma for those who think that "prices give direct evidence as to the quantity of money." From this it can be seen that the fall of prices has not been universal; and that it is unsafe to ascribe the fall of prices of some goods to a cause like an appreciation of gold, which ought to affect the prices of all goods alike.

(2) There are other difficulties, however, in the way of accepting the theory that prices fell because of the demonetization of silver and the scarcity of gold. The extravagant statement has been made by the advocates of free silver that demonetization in 1873 cut off from the world an enormous volume of silver coin hitherto used in performing the world's exchanges. Now, there is absolutely no truth in this. Even granting that prices would have fallen because of a diminution of the money metal, there is, as I have shown in Chapter V, more silver in circulation in the world to-day than in 1873. Therefore, on the theory that the level of prices depends solely on the quantity of metallic money, which I cannot admit, prices ought not to have fallen. When Germany replaced silver with gold it did not eject in all more than \$300,000,000 of silver; about \$110,000,000 of the old silver thalers are still in circulation. Moreover, although the Latin Union stopped free coinage of silver in 1874, it continued to coin and accumulate silver until 1878. In 1878 the United States began to introduce silver into circulation, which now amounts to over \$550,000,000. A great deal more silver has been added to the world's circulation of money than was subtracted from it by Germany; and every other country is using as much or more of it than in 1873. Now these are substantial facts. If, then, there has been no diminution of the use of silver as money, surely even on the quantity theory there can be no reason whatever to believe that the fall of prices has been due to a contraction of the world's supply of money. This is the less possible when we consider how enormous has been the production of gold annually up to the present time.

(3) Moreover, instead of gold being "scarce," there is every evidence that it is abundant, and that it is the easiest thing to get when one has valuable articles to offer for it. In the last chapter it was found to be difficult to explain where all the enormous existing supply of gold, amounting to \$7,500,000,000, had gone. At least \$1,000,000,000 was unaccounted for. There seems to be this amount in excess of the visible demand for gold both for money and for the arts.

The great production of gold since 1850 has been filling up the countries of the world. Dr. Soetbeer made a study in 1886 of the gold in the civilized countries, and found a steadily increasing stock as follows (in millions of dollars):

1877	1878	1879	1880	1881	1882	1883	1884	1885
722	712	875	947	975	1,017	1,150	1,170	1,260

So that in 1885 there was nearly double the amount of gold to be found as compared with that of 1877.

Taking another method, I have examined the reservoirs of gold in civilized countries in the leading banks, with the result that there is in 1895 50 per cent more gold than in 1887, as may be seen from the following table (in millions of dollars):

Year	Gold	Silver
1887 .....	836.6	....
1888 .....	936.4	....
1891 .....	872.6	421.9
1892 .....	1,048.8	416.2
1893 .....	1,031.6	424.8
1894 .....	1,197.3	437.7
1895 (end first quarter) .....	1,248.2	442.8

The slight increase in the holdings of silver is significant of the distrust of the future value of that metal.

Moreover, the paper money of the world is better protected with gold than it was about 1873. "In 1871-74 there was \$1 of gold for every \$3.60 of paper circulation. In 1885 there was \$1 of gold for every \$2.40." And in 1893 there was \$1 of gold for about \$2.30. In short, wherever we put in the probe there is to be found evidence of an increasing and abundant supply of gold.

Nor can it be said that the general volume of money in the United States has been contracted. . . .

This shows that from 1860 to 1892 the volume of currency increased 367.7 per cent, while prices fell on an average only 8 per cent. But, if it be objected that, even with this increase of currency, transactions had increased so much that the money was insufficient to keep prices from falling, we have a record by which to judge of this increase of transactions. This record is to be found in the clearings. Now, mark the result. To appeal to the clearings is, of course, the only record; but, yet, the clearings furnish the amounts of exactly those transactions which, as has been carefully explained in Chapter VIII., are settled without the use of money to any extent. From this chart, then, it is to be seen that the movement of prices has

not shown any correspondence with the change in the volume of currency. While the currency increased in volume, and while about \$600,000,000 of silver have even been added to our circulation since 1878, prices have at least not risen.

(4) In arguing about the scarcity of gold and the fall of prices, some people compare gold with the price of a particular unit of product, as a yard of cloth, a pound of sugar. Now that is an error which shows our inability to understand what is really going on in the industrial world. The fallacy is in comparing gold, not with the whole value of the product of the industry, but with a single piece of the product. Suppose a cotton mill producing 100,000 yards of cotton cloth at 10 cents per yard, equal to \$10,000. Now, improvements are adopted by which the mill puts forth 150,000 yards; then the price falls, say, to 6 2-3 cents a yard. Thereupon the 150,000 yards at 6 2-3 cents sells for \$10,000, as before. Although the production in yards is larger, no more money is needed to exchange the goods; and although the price has fallen, it does not at all follow that gold is scarce.

There are, therefore, two wrong assumptions made by the silver men:

(a) That greater quantity of product requires more money; and,

(b) That a fall of price means a scarcity of money.

Now, just such movements in production and price as are here described are the characteristics of modern trade and business. They are patent to everyone.

(5) Moreover, it is false reasoning to assume that because prices have fallen gold is scarce. The price of an article, we know, is the amount of money for which it will exchange. Price is the ratio between gold and a commodity. The value of the ratio may change either from causes affecting the money term of the ratio, or the commodity term. A ton of steel, for instance, will exchange for the number of grains of gold in \$60. For example, if nothing has happened to affect gold in any way, and yet, by reason of improved processes, a ton of steel could be made for one-half its former cost, a ton of steel would exchange for but one-half as much gold as formerly; that is, for the number of grains in \$30. The price of steel thus has fallen for reasons affecting the commodity term of the ratio in the ratio between gold and steel. In so simple a case as this, we can understand at once that prices may fall or rise from causes affecting alone the commodities which are compared with gold. It may happen, of course, that a change of price may come about from causes affecting only the gold side of the ratio; but this is

not always or necessarily the case. Therefore, to argue that the decline of prices since 1873 is an evidence of scarcity of gold is pure assumption; because of the abundance of goods, the fall may have nothing whatever to do with the abundance or scarcity of gold.

If gold is cheapened, goods buy more of gold (or prices rise); or, if goods are cheapened, without any change whatever affecting gold, goods buy less of gold (or prices fall). There is nothing sacerdotal about gold; it is not an unvarying measure. Why? Clearly because there never can be anything which remains absolutely unchanged in value. And the reason is very simple. Gold is compared with goods in general: the value of gold is what it will exchange for of these goods. Hence, if there be a change, a cheapening, for instance, of any one of the thousands of goods exchanged against gold, gold will exchange for a different amount of these goods—that is, its value will have changed. It is perfectly clear, then, that gold can change in value because of alterations in any of the goods for which gold is exchanged. This, it is equally clear, can take place without implying any change whatever in the money or gold term of the ratio. This cannot be too clearly stated, for it is often assumed that a change in the value of gold relatively to goods—or prices—necessarily implies an abundance or scarcity of gold. These causes may act, but they are far from being the only ones. This explanation shows how just was Secretary Carlisle's statement in his speech at Memphis: "I presume, however, that even the most ardent advocate of free coinage would be willing to admit that the invention and use of labor-saving machinery, the extension of our railroad systems, the improvement of our waterways and the great reductions in the rates for carrying freight, the employment of steamships, the use of the telegraph on the land and under the sea, the application of electricity in the production of light, heat and power, the utilization of by-products which were formerly wasted, the introduction of more economical methods in the processes of production, the wonderful advance made by our laborers in skill and efficiency, the greatly reduced rates of interest paid for the use of capital, and many other things which it would require much time to enumerate and explain, have affected prices in some measure, at least, and yet they ignore all these great influences in their argument upon the subject and attribute the lower prices of commodities to a single alleged and inadequate cause—the appreciation of gold."

Even if gold had retained its usual conditions of production, yet such a set of forces working to

reduce the cost of goods would have disclosed a general, although varying, fall of prices, in so far as improvements affected goods in general. Yet, contemporaneously with the phenomenal cheapening in the cost of the goods, there has appeared the most extraordinary increase in the production of gold ever known since the world began. Never before in history has the gold product equaled that of 1894, or \$182,000,000; and remember that the exceptional production of gold has been going on since 1850; and remember, too, that gold is durable and that the total supply is all that has been brought over from all past years. So that there have been two great changes going on, each capable of affecting prices; and what is the resultant? Goods ought to have fallen in a special way, because of cheapened cost; for that would have lowered their prices expressed in gold. Why have prices not fallen more than 8 per cent since 1860? Because the great production of gold has come just at the same time to lower its own value; for this would tend to raise prices and offset the opposite fall of goods. So the one force counteracted the other; the fall in gold masked the cheapened cost of goods. Both gold and goods have been cheapened together; and that is the reason why labor can to-day command more both of gold and goods than ever before. That is why workmen see no help in free coinage of silver. They have no desire to put up prices of the articles they buy by introducing a depreciated standard. Racking the standard of prices up and down by tampering with its value is a wild and reckless policy. And to assume that the present standard needs tampering with on the ground that prices have fallen because gold is scarce, is to propose a reckless policy on a reason absolutely contrary to the facts and based merely on theoretical abstractions.

But yet it may be seriously believed that prices have already been depressed by the creditor class in order to increase the load of indebtedness on the people. It is said that the act of 1873 established a standard of gold, that gold is insufficient in supply, and that prices estimated in gold have consequently fallen. The reader, however, will recall that gold has been the standard in which prices have been expressed since soon after 1834 (with the exception of the period of depreciated paper money, 1862-1879) up to date, and that no silver was driven out by the act of 1873. There has, therefore, been no contraction whatever of our circulation since 1873. In fact, since resumption of specie payments in 1879, the amount of our circulation has steadily expanded. And there is more gold and silver by over \$1,000,000,000 in circula-

tion in the United States to-day than in 1873.

It has been shown that the phenomenal production of gold since 1850 of \$5,840,000,000 has made it abundant; that it is difficult to account for a demand for the whole of it. And it was this abundance that led France from 1850 to 1865 and even later to absorb gold and let silver go; the United States in 1853 clung to its gold and let the silver be reduced in weight from 371¼ grains to 345.6 grains; Germany took of the abundant supply of gold and also let its silver mainly go in 1873; after 1874, when silver, finding itself elbowed out of the currencies by gold, fell in value, then the Latin Union refused to accept the depreciating silver at its old value of 15½ to 1 at the mints and ceased to allow its free coinage at that price. The whole difficulty was that gold, being abundant and being preferred by modern commercial nations having international transactions on a large scale, the heavier metal was discarded. It was just the same as discarding the slower stage coach when railways became available. Gold as the better instrument was preferred to silver. All legislation merely reflected the commercial needs and preferences of Europe. It was not mere law which caused the fall of silver. It was the discarding of silver by the needs of commerce which led to its fall; and this was done because gold had become abundant. The real cause of the fall in the value of silver, back of legislation, was the abundance of gold.

But if the fall of prices since 1873 were due (as it was not) to a scarcity of gold, why is it that wages, as expressed in gold, have risen? A day's labor to-day commands more gold by 8 per cent than in 1873. If we go back farther than 1873 we find an exceptional increase of wages. The increase in wages in the last fifty years is a well-known fact in our statistical investigations. A most decisive point, therefore, to convince us that gold has become cheaper, is found in this well-known rise of wages of late years. That is, as compared with gold, labor, or the services of human beings, can command more gold to-day than at any other time in the history of the world. This is a striking and important fact upon which we may well ponder. If gold is becoming scarce, why should labor command an increasing share of it? In short, it is a mere theory, unsupported by facts, that prices fell since 1873 because of a lack of gold. Prices have fallen, as producers all know, because of improved means of manufacture, diminished cost of production, opening up of the new wheat and agricultural regions, and because of all the results of the most marvelous march of invention the world has ever seen in any century. Gold has also fallen in value because of its lessened cost, and the

joint result of the fall of goods and the fall of gold is that prices are not much different from the level of 1860. And labor commands both more gold and more goods than before. Nor could prices have fallen since 1873 because of the disuse

of silver, because there is more legal tender silver in circulation to-day than in 1873. In short, this talk of silver and prices is based on mere imagination. It is, therefore, not true that prices have been depressed by a shrinkage of gold. . . .



# THE UNITED STATES AND THE WORLD

## EXPANSION

CLEAR AS America's future as a world empire seemed to Josiah Strong in 1882, that mission was even more apparent at the end of the next decade. American naval power had driven Spain from the seas; Cuba was free, Puerto Rico was an American possession, and the Philippines were coming under American control in spite of revolt and some dissenters at home. Yet, while America was extending her power across the Pacific and European nations wrangled over the remaining spoils of China and Africa, the Russian Czar summoned a Peace Conference to meet at The Hague in 1899. One of the accomplishments of the meeting was the creation of a Permanent Court of Arbitration and it was concerning this achievement that Captain Mahan, one of the United States' delegates at the conference, chose to express his dissent.

Alfred Thayer Mahan (1840-1914) had won wide European recognition by his *Influence of Sea Power upon History* (1890) and the *Influence of Sea Power on the French Revolution and Empire* (1892). Mahan had been called from routine naval duties to lecture on naval tactics and history at the War College in 1885 and his later work had grown out of those studies. His books discussed the role of sea power in history just as events were bringing the significance of naval strength into sharper focus: a new power was rising on the Continent and Wilhelm II's Germany meant to be strong on sea as well as on land.

Mahan had retired in 1896 but when the Spanish-American War broke out he was summoned to serve on the board of naval strategy. His real influence was with statesmen and the public rather than among professional naval

men, however; Mahan seems to have suffered from his Annapolis repute for punctiliousness as well as for his fame as a writer on naval history.

After the war, Mahan turned to the magazines to give a popular view of the basic concepts of naval warfare. Such knowledge would help prevent outbursts of panic like that which had shaken the people of the Atlantic seaboard when the Spanish fleet sailed west. An informed public, moreover, could exert "intelligent pressure" on its representatives and so provide for war during peace rather than in the atmosphere of actual conflict.

Mahan's appeal to public opinion went beyond recommending mere preparation for war. He urged that the American people be cautious in their acceptance of any plan for the compulsory arbitration of disputes among nations. Even in domestic affairs there may be a higher rule than law; but since law is supported by force, a citizen may yield to law against his judgment without necessarily violating his conscience. But if a nation yields to what it considers the unjust decision of an international tribunal, it submits to an authority imposed by itself and therefore, Mahan argues, commits an offense against true morality. War is not the worst resort, he continues, for mankind has ascended by means of the sword. Nations are obligated to maintain right by force in proportion to the power God has seen fit to repose in them. While nations are to hold that power under the control of heart and intellect, they cannot be hampered by compulsory arbitration agreements: world history is too complicated to be governed by the rules or even the principles of law.

In his essay on the future of the United States as a colonial power, Mahan continues to develop his ideas on the moral duties of nations. To protect the new possessions of the United States requires an increase of naval power; moreover, new island bases are needed as positions from which naval power may be exerted. The commercial advantages of such outposts called for no discussion or support, but the method of governing them was a matter for consideration. Britain's example in India and Egypt was serviceable at this point, since it was an object lesson in the wisdom of a colo-

nial policy at once firm and beneficent. For, whatever might be the economic and strategic uses of overseas possessions, they must be ruled in the interests of local welfare. Power brought rewards, but it also brought responsibilities. As a mature nation, the United States must shirk neither advantage nor the duties imposed by it. Thus Mahan, America's philosopher of war and of imperialism.

The selections from *The Lessons of the War with Spain* (Boston, 1899), which originally appeared as magazine articles, are reprinted here by permission of Little, Brown and Company.

### *The Lessons of the War with Spain*

BY ALFRED T. MAHAN

#### THE PEACE CONFERENCE AND THE MORAL ASPECT OF WAR

THERE IS unquestionably a higher law than Law, concerning obedience to which no other than the man himself, or the state, can give account to Him that shall judge. The freedom of the conscience may be fettered or signed away by him who owes to it allegiance, yet its supremacy, though thus disavowed, cannot be overthrown. The Conference at The Hague has facilitated future recourse to arbitration, by providing means through which, a case arising, a court is more easily constituted, and rules governing its procedure are ready to hand; but it has refrained from any engagements binding states to have recourse to the tribunal thus created. The responsibility of the state to its own conscience remains unimpeached and independent. The progress thus made and thus limited is to a halting place, at which, whether well chosen or not, the nations must perforce stop for a time; and it will be wise to employ that time in considering the bearings, alike of that which has been done, and of that which has been left undone.

Our own country has a special need thus carefully to consider the possible consequences of arbitration, understood in the sense of an antecedent pledge to resort to it; unless under limitations very carefully hedged. There is an undoubted popular tendency in direction of such arbitration, which would be "compulsory" in the highest moral sense,—the compulsion of a promise. The world at large, and we especially, stand at the opening of a new era, concerning whose problems little can be foreseen. Among the peoples, there is

manifested intense interest in the maturing of our national convictions, as being, through Asia, newcomers into active international life, concerning whose course it is impossible to predict; and in many quarters, probably in all except Great Britain, the attitude toward us is watchful rather than sympathetic. . . .

It was inevitable that thoughts like these should recur frequently to one of the writer's habit of thought, when in constant touch with the atmosphere that hung around the Conference, although the latter was by it but little affected. The poet's words, "The Parliament of man, the federation of the world," were much in men's mouths this past summer. There is no denying the beauty of the ideal, but there was apparent also a disposition, in contemplating it, to condemn the slow processes of evolution by which Nature commonly attains her ends, and to impose at once, by convention, the methods that commended themselves to the sanguine. Fruit is not best ripened by premature plucking, nor can the goal be reached by such short cuts. Step by step, in the past, man has ascended by means of the sword, and his more recent gains, as well as present conditions, show that the time has not yet come to kick down the ladder which has so far served him. Three hundred years ago, the people of the land in which the Conference was assembled wrenched with the sword civil and religious peace and national independence from the tyranny of Spain. Then began the disintegration of her empire, and the deliverance of peoples from her oppression, but this was completed only last year, and then again by the sword—of the United States.

In the centuries which have since intervened, what has not "justice, with valor armed," when confronted by evil in high places, found itself compelled to effect by resort to the sword? To it was due the birth of our own nation, not least among the benefits of which was the stern experience that has made Great Britain no longer the mistress, but the mother, of her dependencies. The control, to good from evil, of the devastating fire of the French Revolution and of Napoleon was due to the sword. The long line of illustrious names and deeds, of those who bore it not in vain, has in our times culminated—if indeed the end is even yet nearly reached—in the new birth of the United States by the extirpation of human slavery, and in the downfall, but yesterday, of a colonial empire identified with tyranny. What the sword, and it supremely, tempered only by the stern demands of justice and of conscience, and the loving voice of charity, has done for India and for Egypt, is a tale at once too long and too well known for repetition here. Peace, indeed, is not adequate to all progress; there are resistances that can be overcome only by explosion. What means less violent than war would in a half-year have solved the Caribbean problem, shattered national ideas deep rooted in the prepossessions of a century, and planted the United States in Asia, face to face with the great world problem of the immediate future? What but war rent the veil which prevented the English-speaking communities from seeing eye to eye, and revealed to each the face of a brother? Little wonder that a war which, with comparatively little bloodshed, brought such consequences, was followed by the call for a Peace Conference!

Power, force, is a faculty of national life; one of the talents committed to nations by God. Like every other endowment of a complex organization, it must be held under control of the enlightened intellect and of the upright heart; but no more than any other can it be carelessly or lightly abused, without incurring the responsibility of one who buries in the earth that which was intrusted to him for use. And this obligation to maintain right, by force if need be, while common to all states, rests peculiarly upon the greater, in proportion to their means. Much is required of those to whom much is given. So viewed, the ability speedily to put forth the nation's power, by adequate organization and other necessary preparation, according to the reasonable demands of the nation's intrinsic strength and of its position in the world, is one of the clear duties involved in the Christian word "watchfulness,"—readiness for the call that may come, whether expectedly or not.

Until it is demonstrable that no evil exists, or threatens the world, which cannot be obviated without recourse to force, the obligation to readiness must remain; and, where evil is mighty and defiant, the obligation to use force—that is, war—arises. Nor is it possible, antecedently, to bring these conditions and obligations under the letter of precise and codified law, to be administered by a tribunal; and in the spirit legalism is marked by blemishes as real as those commonly attributed to "militarism," and not more elevated. The considerations which determine good and evil, right and wrong, in crises of national life, or of the world's history, are questions of equity often too complicated for decision upon mere rules, or even principles, of law, international or other. The instances of Bulgaria, of Armenia, and of Cuba, are entirely in point, and it is most probable that the contentions about the future of China will afford further illustration. Even in matters where the interest of nations is concerned, the moral element enters; because each generation in its day is the guardian of those which shall follow it. Like all guardians, therefore, while it has the power to act according to its best judgment, it has no right, for the mere sake of peace, to permit known injustice to be done to its wards.

The present strong feeling, throughout the nations of the world, in favor of arbitration, is in itself a subject for congratulation almost unalloyed. It carries indeed a promise, to the certainty of which no paper covenants can pretend; for it influences the conscience by inward conviction, not by external fetter. But it must be remembered that such sentiments, from their very universality and evident laudableness, need correctives, for they bear in themselves a great danger of excess or of precipitancy. Excess is seen in the disposition, far too prevalent, to look upon war not only as an evil, but as an evil unmixed, unnecessary, and therefore always unjustifiable; while precipitancy, to reach results considered desirable, is evidenced by the wish to *impose* arbitration, to prevent recourse to war, by a general pledge previously made. Both frames of mind receive expression in the words of speakers, among whom a leading characteristic is lack of measuredness and of proportion. Thus an eminent citizen is reported to have said: "There is no more occasion for two nations to go to war than for two men to settle their difficulties with clubs." Singularly enough, this point of view assumes to represent peculiarly Christian teaching, willingly ignorant of the truth that Christianity, while it will not force the conscience by other than spiritual weapons, as "compulsory" arbitration might, distinctly recognizes

the sword as the resister and remedier of evil in the sphere "of this world."

Arbitration's great opportunity has come in the advancing moral standards of states, whereby the disposition to deliberate wrongdoing has diminished, and consequently the occasions for redressing wrong by force the less frequent to arise. In view of recent events however, and very especially of notorious, high-handed oppression, initiated since the calling of the Peace Conference, and resolutely continued during its sessions in defiance of the public opinion—the conviction—of the world at large, it is premature to assume that such occasions belong wholly to the past. Much less can it be assumed that there will be no further instances of a community believing, conscientiously and entirely, that honor and duty require of it a certain course, which another community with equal integrity may hold to be inconsistent with the rights and obligations of its own members. It is quite possible, especially to one who has recently visited Holland, to conceive that Great Britain and the Boers are alike satisfied of the substantial justice of their respective claims. It is permissible most earnestly to hope that, in disputes between sovereign states, arbitration may find a way to reconcile peace with fidelity to conscience, in the case of both; but if the conviction of conscience remains unshaken, war is better than disobedience, —better than acquiescence in recognized wrong. The great danger of indiscriminating advocacy of arbitration, which threatens even the cause it seeks to maintain, is that it may lead men to tamper with equity, to compromise with unrighteousness, soothing their conscience with the belief that war is so entirely wrong that beside it no other tolerated evil is wrong. Witness Armenia, and witness Crete. War has been avoided; but what of the national consciences that beheld such iniquity and withheld the hand?

#### THE RELATIONS OF THE UNITED STATES TO THEIR NEW DEPENDENCIES

In modern times there have been two principal colonizing nations, which not merely have occupied and administered a great transmarine domain, but have impressed upon it their own identity—the totality of their political and racial characteristics—to a degree that is likely to affect permanently the history of the world at large.

These two nations, it is needless to say, are Great Britain and Spain. Russia, their one competitor, differs from them in that her sustained advance over alien regions is as wholly by land as theirs has been by sea. France and Holland have occupied and administered, and continue to oc-

cupy and administer, large extents of territory; but it is scarcely necessary to argue that in neither case has the race possessed the land, nor have the national characteristics been transmitted to the dwellers therein as a whole. They have realized, rather, the idea recently formulated by Mr. Benjamin Kidd for the development of tropical regions,—administration from without.

The unexpected appearance of the United States as in legal control of transmarine territory, which as yet they have not had opportunity either to occupy or to administer, coincides in time with the final downfall of Spain's colonial empire, and with a stage in the upward progress of that of Great Britain, so marked, in the contrast it presents to the ruin of Spain, as to compel attention and comparison, with an ultimate purpose to draw therefrom instruction for the United States in the new career forced upon them. The larger colonies of Great Britain are not indeed reaching their majority, for that they did long ago; but the idea formulated in the phrase "imperial federation" shows that they, and the mother country herself, have passed through and left behind the epoch when the accepted thought in both was that they should in the end separate, as sons leave the father's roof, to set up, each for himself. To that transition phase has succeeded the ideal of partnership, more complex indeed and difficult of attainment, but trebly strong if realized. The terms of partnership, the share of each member in the burdens and in the profits, present difficulties which will delay, and may prevent, the consummation; time alone can show. The noticeable factor in this change of mind, however, is the affectionate desire manifested by both parent and children to ensure the desired end. Between nations long alien we have high warrant for saying that interest alone determines action; but between communities of the same blood, and when the ties of dependence on the one part are still recent, sentiments—love and mutual pride—are powerful, provided there be good cause for them. And good cause there is. Since she lost what is now the United States, Great Britain has become benevolent and beneficent to her colonies.

It is not in colonies only, however, that Great Britain has been beneficent to weaker communities; nor are benevolence and beneficence the only qualities she has shown. She has been strong also,—strong in her own interior life, whence all true strength issues; strong in the quality of the men she has sent forth to colonize and to administer; strong to protect by the arm of her power, by land, and, above all, by sea. The advantage of the latter safeguard is common to all her depend-

encies; but it is among subject and alien races, and not in colonies properly so called, that her terrestrial energy chiefly manifests itself, to control, to protect, and to elevate. Of these functions, admirably discharged in the main, India and Egypt are the conspicuous illustrations. In them she administers from without, and cannot be said to colonize, for the land was already full. . . .

We have the two great examples. Great Britain has been, in the main, and increasingly, beneficent and strong. Spain, from the very first, as the records show, was inhumanly oppressive to the inferior races; and, after her own descendants in the colonies became aliens in habit to the home country, she to them also became tyrannically exacting. But, still more, Spain became weaker and weaker as the years passed, the tyranny of her extortions being partially due to exigencies of her political weakness and to her economical declension. Let us, however, not fail to observe that the beneficence, as well as the strength, of Great Britain has been a matter of growth. She was not always what she now is to the alien subject. There is, therefore, no reason to despair, as some do, that the United States, who share her traditions, can attain her success. The task is novel to us; we may make blunders; but, guided by her experience, we should reach the goal more quickly.

And it is to our interest to do so. Enlightened self-interest demands of us to recognize not merely, and in general, the imminence of the great question of the farther East, which is rising so rapidly before us, but also, specifically, the importance to us of a strong and beneficent occupation of adjacent territory. In the domain of color, black and white are contradictory; but it is not so with self-interest and beneficence in the realm of ideas. This paradox is now too generally accepted for insistence, although in the practical life of states the proper order of the two is too often inverted. But, where the relations are those of trustee to ward, as are those of any state which rules over a weaker community not admitted to the full privileges of home citizenship, the first test to which measures must be brought is the good of the ward. It is the first interest of the guardian, for it concerns his honor. Whatever the part of the United States in the growing conflict of European interests around China and the East, we deal there with equals, and may battle like men; but our new possessions, with their yet minor races, are the objects only of solicitude.

Ideas underlie action. If the paramount idea of beneficence becomes a national conviction, we may stumble and err, we may at times sin, or be betrayed by unworthy representatives; but we

shall advance unflinching. I have been asked to contribute to the discussion of this matter something from my own usual point of view; which is, of course, the bearing of sea power upon the security and the progress of nations. Well, one great element of sea power, which, it will be remembered, is commercial before it is military, is that there be territorial bases of action in the regions important to its commerce. That is self-interest. But the history of Spain's decline, and the history of Great Britain's advance,—in the latter of which the stern lesson given by the revolt of the United States is certainly a conspicuous factor, as also, perhaps, the other revolt known as the Indian Mutiny, in 1857,—alike teach us that territories beyond the sea can be securely held only when the advantage and interests of the inhabitants are the primary object of the administration. The inhabitants may not return love for their benefits,—comprehension or gratitude may fail them; but the sense of duty achieved, and the security of the tenure, are the reward of the ruler. . . .

I have, therefore, but one thing which I have not already often said to offer to such men, who affect these great issues through their own aptitudes and through their far-reaching influence upon public opinion, which they touch through many channels. Sea power, as a national interest, commercial and military, rests not upon fleets only, but also upon local territorial bases in distant commercial regions. It rests upon them most securely when they are extensive, and when they have a numerous population bound to the sovereign country by those ties of interest which rest upon the beneficence of the ruler; of which beneficence power to protect is not the least factor. Mere just dealing and protection, however, do not exhaust the demands of beneficence towards alien subjects, still in race-childhood. The firm but judicious remedying of evils, the opportunities for fuller and happier lives, which local industries and local development afford, these also are a part of the duty of the sovereign power. Above all, there must be constant recognition that self-interest and beneficence alike demand that the local welfare be first taken into account. It is possible, of course, that it may at times have to yield to the necessities of the whole body; but it should be first considered.

The task is great; who is sufficient for it? The writer believes firmly in the ultimate power of ideas. Napoleon is reported to have said: "Imagination rules the world." If this be generally so, how much more the true imaginations which are worthy to be called ideas! There is a nobility in

man which welcomes the appeal to beneficence. May it find its way quickly now to the heads and hearts of the American people, before less worthy ambitions fill them; and, above all, to the kings of men, in thought and in action, under whose leadership our land makes its giant strides. There is in this no Quixotism. Materially, the interest of the nation is one with its beneficence; but if the ideas get inverted, and the nation sees in its new responsibilities, first of all, markets and profits, with incidental resultant benefit to the natives, it will go wrong. Through such mistakes Great Britain passed. She lost the United States; she suffered bitter anguish in India; but India and Egypt testify to-day to the nobility of her repentance. Spain repented not. The examples are before us. Which shall we follow?

And is there not a stimulus to our imagination, and to high ambition, to read, as we easily may, how the oppressed have been freed, and the degraded lifted, in India and in Egypt, not only by political sagacity and courage, but by administrative capacity directing the great engineering enterprises, which change the face of a land and increase a hundredfold the opportunities for life and happiness? The profession of the writer, and the subject consequently of most of his writing, stands for organized force, which, if duly developed, is the concrete expression of the nation's strength. But while he has never concealed his opinion that the endurance of civilization, during a future far beyond our present foresight, depends ultimately upon due organization of force, he has ever held, and striven to say, that such force is but the means to an end, which end is durable peace and progress, and therefore beneficence. The triumphs and the sufferings of the past months

have drawn men's eyes to the necessity for increase of force, not merely to sustain over-sea dominion, but also to ensure timely use, in action, of the latent military and naval strength which the nation possesses. The speedy and inevitable submission of Spain has demonstrated beyond contradiction the primacy of navies in determining the issue of transmarine wars; for after Cavité and Santiago had crippled hopelessly the enemy's navy, the end could not be averted, though it might have been postponed. On the other hand, the numerical inadequacy of the troops sent to Santiago, and their apparently inadequate equipment, have shown the necessity for greater and more skilfully organized land forces. The deficiency of the United States in this respect would have permitted a prolonged resistance by the enemy's army in Cuba,—a course which, though sure ultimately to fail, appealed strongly to military punctilio.

These lessons are so obvious that it is not supposable that the national intelligence, which has determined the American demand for the Philippines, can overlook them; certainly not readers of the character of those to whom this paper is primarily addressed. But when all this has been admitted and provided for, it still remains that force is but the minister, under whose guardianship industry does its work and enjoys peaceably the fruits of its labor. To the mechanical industries of the country, in their multifold forms, our new responsibilities propound the questions, not merely of naval and military protection, but of material development, which, first beneficent to the inhabitants and to the land, gives also, and thereby, those firm foundations of a numerous and contented population, and of ample local resources, upon which alone military power can securely rest.

## THE OPEN DOOR

THE ANNEXATION of the Philippines made the United States a Pacific power during the last stages of the dissolution of Manchu rule in China. The European nations used China's decline as a means of securing portions of her territory as "spheres of influence" for their own exploitation, a practice calculated to hinder an increase of trade and investment there by the nationals of other countries. At the same time, the European balance of power was disturbed by increased German influence and ambition on the Continent and by the expan-

sion of Russia in the Far East. England found it necessary to seek new allies, therefore, and received willing cooperation from American circles where admiration for the most successful imperialist power ruled American expansionists like Lodge, Roosevelt, and Whitelaw Reid.

Though England and the United States were competitors in the Chinese textile and railroad-equipment market, both saw their interests threatened by the prospect of a division of China among the Great Powers. Germany's

concession at Kiaochow and Russia's acquisition of Port Arthur seemed to bring that prospect nearer, as neither country returned anything but evasion to inquiries concerning freedom of commerce in those areas.

By the winter of 1899, American business groups were moving toward greater interest in China, an interest which was stimulated by hints from the State Department and by such essays in propaganda as Lord Charles Beresford's (1846-1919) *Break-up of China* (New York, 1899). His Lordship had set off on a tour of the Far East as representative of the British Associated Chambers of Commerce. He had kept America's Secretary of State John Hay informed of his progress and the *Break-up of China* was intended for American as well as English readers. Though the book is no more than a long after-dinner speech in print, its contemporary popularity, its advocacy of the Open Door—equal opportunity for the sale of goods in China—and its stress on united action by the United States and Great Britain combine to make it illuminate the genesis of Hay's famous "Open Door" notes.

Actually, those identic notes were the work of William Rockhill, Hay's personal adviser on Far Eastern affairs. Rockhill, who was born at Philadelphia in 1854, had studied Chinese and military science in France. After a period of service with the United States diplomatic corps in China, he had been appointed chief clerk and then assistant secretary of the State Department. In the summer of 1899, Rockhill held the post of Director of the Bureau of American Republics. Rockhill, in his turn, was strongly influenced by his own friend and adviser, Alfred Hoppisley, a British subject who, since 1867, had been a member of the Chinese Imperial Maritime Service, which administered the Chinese customs. Hoppisley was returning to England on leave that summer and he urged

Rockhill to take measures to get the United States to assume the initiative in the Far East. The United States should call the attention of the Powers to the present situation in China and attempt to obtain an undertaking that existing tariffs would be applied without discrimination in the areas which had been taken over from the Chinese. Thus, from the dissolution of the Manchu Empire, Hoppisley hoped to save at least the equal treatment of commerce; equal opportunity for capital investment already appeared Utopian, but the United States, by acting secretly and promptly, might still open the door to trade before that should be closed forever.

In August, accordingly, Rockhill presented these views to Hay and, a few days later, on the twenty-fourth, Hay asked Rockhill to draft a set of instructions on commercial freedom in China. Rockhill's memorandum in reply included the material in Hoppisley's earlier draft and was itself embodied in the Open Door notes attributed to John Hay (1838-1905).

Though the Open Door policy was, at the time, as much a failure in fact as in formal reception, Hay won American popular acclaim as the savior of China. He may not have secured freedom for American trade, nor won a guarantee of China's territorial integrity, but he did incorporate in American foreign policy a principle which, like the Monroe Doctrine, has had the allegiance and support of both the American people and American governments.

The Beresford selection is reprinted from his book, *The Break-up of China* through the permission of Harper and Brothers. The Hoppisley and Rockhill Memoranda are reprinted from A. W. Griswold's *The Far Eastern Policy of the United States* (New York, 1938) through the permission of Harcourt, Brace and Company.



*The Break-up of China*

BY CHARLES BERESFORD

## XXIX: THE UNITED STATES

... THE PRINCIPLE of the "Open Door" is unanimously held to be the policy necessary for the increase of the United States' trade with China; but there the matter rests. I heard no sentiments expressed which conveyed to me any opinion on the part of any of the American Chambers of Commerce as to how the "Open Door" principle was to be insured, although I did hear many opinions expressed that the time could not be far distant when the Chinese Empire would be added to the list of those countries which had fallen to pieces from internal decay. Though the great trading classes of the United States, as far as I could gather, are keenly alive to the necessity of safeguarding the future of the United States' commercial interests, it was quite apparent to me that those in authority, and indeed the people as a whole, are, for the present, at any rate, going to allow Chinese affairs to take care of themselves. It was very satisfactory to me to be frequently told that the fact of the British Associated Chambers having sent a Mission of Inquiry to China would provoke an interest among the commercial classes of the United States with regard to the future of China. The attitude taken up by the commercial classes in Japan was totally different from that which I found in the United States. Both saw the necessity of keeping the Door open in China if full advantage was to be taken of the possible development of American or Japanese trade; but while on the Japanese side there was every indication of a desire to act in some practical manner in order to secure the Open Door, I could discover no desire on the part of the commercial communities in the United States to engage in any particular effort for preserving what to them might become in the future a trade, the extent of which no mortal can conjecture. On many occasions I suggested that some sort of understanding should exist between Great Britain and the United States for the mutual benefit of the two countries with regard to the future development of trade in China; but while receiving the most cordial support to this proposal, nothing of a definite character was suggested to me that I could present to the Associated Chambers.

Looking at the matter fairly, the public mind in the United States is occupied with an entirely novel policy, which, being an actual fact, must be

more engrossing to the American public than matters which up to now even have not advanced into the region of discussion. I refer to the policy of expansion, as illustrated by the difficult problem which has to be solved in the Philippine Islands. Added to this, the actual trade between the United States and China at the present moment is a very small proportion of the whole foreign trade of that country, only 8 per cent. The American trade with China is, however, very much larger than appears in the import list contained in the returns of the Imperial Maritime Customs of the Chinese Empire. Taking the question of the import of plain cotton goods alone for the years 1887-1897 inclusive, referred to in this Report in the chapter on "Shanghai," it will be seen that American goods during those ten years have increased in quantity 121.11 per cent., and 59.45 per cent. in value, while the British import of the same class of goods has decreased 13.77 per cent. in quantity, and 7.9 per cent. in value. In examining these trade returns the question of ownership and manufacture is an all-important one. At the time of import this cotton is owned by the British merchant and shipped in British bottoms, but the competition of the United States is directly with the Lancashire cotton manufacturer. I was much impressed by the good feeling and friendship towards Great Britain expressed by all with whom I came in contact in the United States. These kindly sentiments were particularly marked on all occasions when the health of her Majesty the Queen was proposed. I believe that a great deal of the enthusiasm with which I was received during my journey throughout the United States was actuated by the sentiments of kindly feeling towards the British.

There is a very large and increasing export trade of flour from America to China. The Chinese are appreciating this class of food more every year. There is also a great export of American machinery of all sorts to China. The whole of the Russian railway plant in Manchuria—viz., rolling-stock, rails, and sleepers—comes from the United States. There is also a large import of American machinery into Japan.

Although the American percentage of trade with China is only 8 per cent. of the whole, it is important to remember in what a comparatively short time this has been built up, and if to this percentage was added the proportion of British-

owned trade in commodities of American origin, I am of opinion that it would be found that the actual American manufactured goods represent a very much larger percentage than is generally known. As it is, American trade represents 8 per cent., as against 28 per cent. of all other nations (excluding Great Britain) combined.

The only direction in which I found a falling off in American trade was in kerosene-oil, in which industry Russia and Sumatra are becoming America's chief competitors. A noteworthy fact that was brought to my notice by the Commissioner of Customs at Newchwang was, that American manufactured goods at that port now represent about 50 per cent. of the whole foreign import, showing that, at any rate in North China,

American trade is increasing in volume and importance.

The problems connected with the future development of trade in China will be solved more easily if the powerful Anglo-Saxon races can come to some mutual understanding regarding them. As the interests of the United States and Great Britain are absolutely identical in China, an understanding must conduce to the benefit of both great nations, and certainly make for the peaceful solution of the difficulties. Both nations are essentially trading nations, neither want territory, they both wish to increase their trade. With an equal opportunity throughout China, they would not only increase their trade but do much towards increasing the prosperity of the whole world.

## *Basis of the "Open Door" Notes*

### I. THE HIPPLISLEY MEMORANDUM

THE MERCANTILE COMMUNITIES of the United States and Gt. Britain, realising the important field for their enterprise which under existing conditions is afforded by China, and the vastly extended field for it which they might legitimately look forward to under improved conditions in the future, earnestly desire the maintenance of the "open door," i.e., of the rights possessed under the existing treaties of Tientsin. In other words, they ask that they be assured the equality of opportunity which all nations alike have hitherto enjoyed under those treaties for (a) commerce, (b) navigation, and (c) exploitation of mines and railroads.

Last year when the British Govt. was energetically insisting on the necessity of maintaining the "open door" in China, Mr. Balfour's speeches foreshadowed a policy which, though nominally aiming at that object, conceded to the various Powers the possession of spheres of influence or interest in which they would enjoy special rights and privileges in respect of railroad and mining enterprises: and the undertakings entered into by Gt. Britain with Germany as regards Shantung and with Russia as regards Manchuria go to show that this is the policy which the British Govt. has definitely adopted to govern its relations with other Powers in China. A policy the object of which is to maintain the "open door" and at the same time to recognise spheres of interest with special, and practically exclusive, rights as regards mines and railroads, is possibly feasible; but it certainly is feasible only on the condition that adequate steps are taken to prevent the special mining and railroad rights being so stretched as

to include territorial jurisdiction and the power to impose discriminating taxation in any form.

In any case the undertakings above referred to have already practically deprived Britishers of equality of opportunity as regards mines and railroads in certain important districts of China, and would appear to render it difficult for other nationalities to insist on the maintenance of their equality of opportunity as regards those enterprises in the districts concerned—though the importance of this curtailment of previously existing rights is much reduced by the facts that the concessions for mines and railroads already granted in China will require years to fulfil, even if they do not require a larger amount of capital than is likely to be forthcoming for investment in that country, and that these concessions are distributed among all of the wealthy nations.

Equality of opportunity as regards (c) having practically then already gone by the board, it would seem that the utmost that can now be attempted is to safeguard equality of opportunity as regards (a) and (b)—commerce and navigation. To do this it appears essential that the nations in favour of the "open door" policy should bind themselves, and secure undertakings from the other powers, to the effect that each in its respective spheres of interest or influence

(1) will in no way interfere with any treaty port in such sphere or with the interests vested in it:

(2) will promise that, unless the ports opened to trade in it are declared free ports, the Chinese treaty tariff as existing or as hereafter amended

shall apply to all merchandise landed or shipped, no matter to what nationality such merchandise may belong; and that the dues and duties so leviable shall be collected by the Chinese Govt.; and

(3) will levy no higher harbour dues on vessels of another nationality frequenting any port in such sphere than shall be levied on vessels of its own nationality, and no higher railroad charges on merchandise belonging to subjects of other Powers transported through such sphere than shall be levied on similar merchandise belonging to its own nationals transported over equal distances.

Such an arrangement would go far to secure an open market for merchandise in China and to remove dangerous sources of international conflict: and it is not anticipated that any serious difficulty would be experienced in attaining it. If the declarations of responsible British statesmen mean anything, they should ensure hearty support from Gt. Britain. Germany by her enlightened policy in sanctioning the establishment of a Chinese Customs-house at Kiaochow and in rendering it all possible assistance—in marked contrast to the narrow, unjust, and shortsighted policy of Gt.

Britain in expelling the Chinese Customs-house from the Kowloon extension, inevitably to the enormous increase of smuggling—shows that little opposition is to be anticipated on her part. The doubtful Powers have hitherto been Russia and France, but the Ukase issued by the Czar on the 15th inst. declaring "Talien-wan a free port during the whole period of the treaty for the merchant ships of all nations" removes all doubt as to Russia's attitude and justifies the expectation that she would co-operate in such an undertaking as that proposed; and it is little likely that France would refuse to listen to Russia's advice—opposed though it is to her traditional policy in China of insisting that, whenever in any degree possible, territorial jurisdiction is included in any rights conceded—and so stand out in opposition alone.

The issue of the Czar's ukase just referred to opens the door for *pourparlers* on this subject and renders the present a specially opportune moment for entering on them.

A. E. H.  
17-viii-99

## 2. THE ROCKHILL MEMORANDUM

No one person has done more within the last few months to influence public opinion in the United States on the Chinese question than Lord Charles Beresford, by his book "The Break-Up of China," and by the speeches he has made in the United States. By these means he has sought to prove the identity of interests of our two countries and the necessity of an Anglo-American policy in China. It seems desirable to preface the following remarks by examining the data supplied by Lord Charles, endeavoring to control his views, and to show, if possible, the truth or fallacy of his conclusions.

For one who has devoted the better part of his life to the study of Chinese affairs, the book of Lord Beresford comes as an agreeable surprise—so far as regards foreign commercial relations with China, and is on the whole rather encouraging than dispiriting. The volume of foreign trade has steadily increased, and everywhere signs are not wanting of its further extension; the Chinese Government has not failed to fulfill any of its pecuniary obligations to foreigners, and is endeavoring, in a clumsy, uncertain way it is true—but that is not entirely its fault, to take some further steps in the direction needed for its internal development. If, on the other hand, the Empire is in a disturbed condition, and if foreign interests suffer thereby, this is entirely due to the unseemly

haste of some of the Treaty Powers in their scramble for commercial advantages and acquisition of territory. This they lament but do not seek to remedy.

Lord Beresford's interviews with the various foreign mercantile organizations at the treaty ports of China bring clearly before us the fact that they have not in the last twenty years had any new ground for complaint against the Chinese Government, that they are to-day suffering, not perhaps even quite so severely as years ago, from the existence of certain restrictions, especially those resulting from internal revenue taxes, which have been the subject of endless correspondence between the diplomatic representatives in Peking and the Chinese Government for the last quarter of a century and with which every one interested in affairs in that Empire must by this time be pretty familiar.

The grievances of which the foreign mercantile class in China has to complain and a remedy to which lies with the Chinese Government, are all proper subjects for diplomatic discussion and no one can doubt that if within the last two years steady and united pressure had been brought to bear on it by the Treaty Powers, some of them would be in a fair way to settlement at the present time.

Take for example *likin*. In the rush for conces-

sions to foreigners in China and the necessity for that country to find funds to insure the payment of interest on the loans she has been forced to contract to carry out more or less urgent public works recommended by them, the Treaty Powers have compelled her to increase her internal revenue taxes and have permanently fastened on the country this very tax (*likin*) they had for twenty-five years and more been trying to have suppressed. Again take the transit pass system by which foreign goods are allowed to be carried throughout the Empire on the payment of one-half the import duty, and which system the British merchants claim is an utter failure, we know by the successful endeavors of the French Government in enforcing this right under the treaties for goods imported into southwestern China, that if failure it is in other parts of the Empire, the fault lies with the foreigners themselves.

Lord Beresford's opinion that it is primarily necessary for the development of China to make a military and naval power of that Empire, is, I think, the weakest part of his work, and his opinion is at variance with that of all those who know best China and the Chinese. So far as the protection of foreign interests is concerned, the Chinese Government is, and has been since the suppression of the Taiping rebellion, able to protect them whenever and wherever it has chosen to, as innumerable cases familiar to the Department can show.

In the various memoranda submitted to Lord Beresford by the British merchants of China and published in his book, the need for China to increase her armament to insure their security, is nowhere hinted at, but in all of them we find the cause of the present stagnation of trade attributed, and rightly to my mind, to the vacillating policy of the home Governments, frequently brought about by apathy and lack of knowledge regarding Chinese affairs, the resulting ability of the Chinese Government to escape the performance of its treaty obligations, and to the jealousies and lack of concerted action of the Powers in treating questions of general interest. . . .

That the task of strengthening the central government is a comparatively easy one, the history of China's progress in the last fifty years conclusively shows. The introduction of telegraphic lines throughout the Empire, the Maritime Customs service, the more recent organization of a system of imperial railways and their successful working, and a variety of other reforms are all operating in the same direction, so that Lord Beresford's statement (p. 231) "no reforms . . . can possibly be brought about in a country so

hopelessly corrupt as China until the first and initial step is taken of giving authority to those in power which only an effective military and police can supply," is a hasty and erroneous conclusion.

That the existence of a strong and well officered and disciplined army and navy in China might assist that country to ward off the attacks of a foreign foe, is likely; that, in the absence of such a force, and with the present aggressive policy of some of the Treaty Powers, the creation of "spheres of interest" (or influence) easily reached by rail or by the sea by the interested Power from its own territory, should be held to be the only way of insuring China against complete partition, is comprehensible; but that the United States should lend a hand to the carrying out of either of these two policies seems absolutely suicidal to our vast and growing interests in that part of the world.

British writers on Chinese questions, and especially Lord Beresford, have advocated in the strongest terms the "open door policy" or equality of treatment and opportunity for all comers, and denounce in the strongest terms the system of "Spheres of Influence" (or interest); but such spheres have now been recognized by Great Britain as well as by France, Germany and Russia, and *they must be accepted as existing facts*.

But while adopting the policy of spheres of interest, which, we will admit, political reasons may have forced it to do, Great Britain has tried to maintain also the "open door" policy, the only one which meets with the approval of its business classes, for by it alone can they be guaranteed equality of treatment in the trade of China. In this attempt to minimize the evils brought about by the necessities of her foreign policy, Great Britain has been, however, unable to secure to her people perfect equality of opportunity, for she has recognized special and exclusive rights first of Germany and then of Russia in their areas of activity, more particularly those relating to railways and mines. What these rights may eventually be claimed to include, no one can at present foretell, though it would not be surprising if the exercise of territorial jurisdiction and the imposition of discriminating taxation were demanded under them—at least by France. Should such rights be conceded, our trade interests would receive a blow, from which they could not possibly recover.

To sum up then, we find to-day in China that the policy of the "open door," the untrammelled exercise of the rights insured to Treaty Powers by the treaty of Tientsin, and other treaties copied on it or under the most favored nation clause, is claimed by the mercantile classes of the United

States and other powers as essential to the healthy extension of trade in China. We see, on the other hand, that the political interests and the geographical relations of Great Britain, Russia and France to China have forced those countries to divide up China proper into areas or spheres of interest (or influence) in which they enjoy special rights and privileges, the ultimate scope of which is not yet determined, and that at the same time Great Britain, in its desire not to sacrifice entirely its mercantile interests, is also endeavoring to preserve some of the undoubted benefits of the "open door" policy, but "spheres of influence" are an accomplished fact, this cannot be too much insisted on. This policy is outlined by Mr. Balfour in his Manchester speech of January 10, 1898.

Such then being the condition of things, and in view of the probability of complications soon arising between the interested powers in China, whereby it will become difficult, if not impossible, for the United States to retain the rights guaranteed them by treaties with China, what should be our immediate policy? To this question there can, it seems, be but one answer, we should at once initiate negotiations to obtain from those Powers who have acquired zones of interest in China formal assurance that (1) they will in no way interfere within their so-called spheres of interest with any treaty port or with vested rights in it of any nature; (2) that all ports they may open in their respective spheres shall either be free ports, or that the Chinese treaty tariff at the time in force shall apply to all merchandise landed or shipped, no matter to what nationality belonging, and that the dues and duties provided for by treaty shall be collected by the Chinese Government; and (3) that they will levy no higher harbor dues on vessels of other nationalities frequenting their ports in such spheres than shall be levied on their national vessels, and that they will also levy no higher railroad charges on merchandise belonging to or destined for subjects of other powers transported through their spheres than shall be levied on similar merchandise belonging to its own nationality.

In other words, we should insist on absolute equality of treatment in the various zones, for equality of opportunity with the citizens of the favored powers we cannot hope to have, in view of the well known methods now in vogue for securing privileges and concessions, though we should continually, by every proper means, seek to gain this also.

Such understandings with the various Powers, and it is confidently believed that they could be reached at present, would secure an open market

throughout China for our trade on terms of equality with all other foreigners, and would further remove dangerous sources of irritation and possible conflict between the contending powers, greatly tend to re-establish confidence, and prepare the way for concerted action by the Powers to bring about the reforms in Chinese administration and the strengthening of the Imperial Government recognized on all sides as essential to the maintenance of peace.

Great stress has been laid by British writers on the role of Russia in China which they contend is a "purely political and military conquest" and who, "though she may mean to eventually build up a commerce, only wants for the present the Chinese seaboard and ports for strategic purposes." (Colquhoun. *"China in Transformation."* 326.) Lord Beresford says (32) that he was told at Niuchuang by the British residents that "they regarded Manchuria as really a Russian province . . . that though the Russians might not impose a tariff on goods just at present, they were placing themselves in such a powerful military position that they would be able to do so in the near future, . . . and the merchants considered their trade threatened by such exhibition of military power." In the face of these apprehensions of the British merchants at Niuchuang, who were but feeling in their persons the discomforts and restrictions which all foreigners may sooner or later have to experience when settled in the sphere of influence of some rival power, it is agreeable to have to record the opening of the port of Talien-wan (near Port Arthur and an infinitely better port than Niuchuang, being below the line of winter and ice), to the merchant ships of all nations during the whole of the lease under which it is held by the Emperor of Russia's ukase of August 15th of this year. This I conceive will greatly help to allay fears and doubts as to Russia's attitude in China, and justifies the belief entertained that she would co-operate in bringing about such international understanding as is here outlined. The recent statement of a Russian writer inspired by a personage enjoying for years the friendship of the Emperor of Russia, that "the independence and integrity of China is a fundamental principle of Russia's policy in Asia" (*N. A. Rev.*, July, '99, p. 16), may or may not be absolutely correct; at all events, it may well be taken as indicating the present trend of Russia's policy, and seems to insure the friendly consideration at St. Petersburg of the arrangement here suggested. Whatever the ulterior object of Russia may be, its present one is unquestionably conciliation, for any haste might prove the spark which would cause the explosion

by which the Chinese Empire would be shattered.

Nor does the assent of Germany to the proposed agreement seem very doubtful; she has declared Kiaochao a free port and allowed a Chinese custom house to be established there, in pleasing contrast by the way with the illiberal and short-sighted policy of Great Britain which has expelled the Chinese custom house from the Kowloon extension in front of Hongkong, and while she has insisted on certain exclusive mining and railroad rights in her sphere of interest, it seems highly probable that as German capital flows slower and slower into these enterprises, as it undoubtedly will as the vast requirements for long years to come of the already granted concessions are more exactly determined, she will find it greatly to her advantage to encourage and foster the enterprises of other nations.

No reference has been made to the way in which the Japanese Government would consider the propositions here suggested, because these measures are so clearly advantageous to Japan and so much in line with its own policy in China, that it must meet with its hearty approval.

It is particularly important for obvious reasons of both domestic and foreign policy that the initiative for these negotiations should be taken by the United States. Such a policy cannot be construed

as favorable to any power in particular, but is eminently useful and desirable for the commerce of all nations. It furthermore has the advantage of insuring to the United States the appreciation of Chinese Government, who would see in it a strong desire to arrest the disintegration of the Empire and would greatly add to our prestige and influence at Peking.

France is the only doubtful country from whom some opposition might be anticipated, it being her well known policy in China to claim all implied jurisdictional rights wherever possible, but it is little likely that in this question, as in others, she would decline to listen to Russia's advice and stand out in opposition alone.

The prospect seems bright therefore *at the present moment* of bringing to a successful conclusion the negotiations needed to attain the ends here indicated and which will, it is thought, relieve our commercial world from the just apprehension and perturbation in which recent events have thrown it, giving it equal treatment so far as commerce and navigation go, with the subjects of any other Power.

Respectfully submitted,

W. W. Rockhill

Washington, 28th of  
August, 1899.





## Part Nine

### THE NEW FREEDOM



# INTRODUCTION

## 1. THE POLITICAL SCENE

*Theodore Roosevelt.* From 1901 to 1910, the personality of Theodore Roosevelt dominated the American political scene. He was not quite 43 years of age when he was sworn in as President of the United States on September 14, 1901. As a youth he had flirted with the Republican Mugwumps and had indicated a zest for reform. But there was a curious ambivalence in his character: he could speak the language of social change; and yet he could vote the regular Republican tickets at election time. He received his rewards in a long series of appointive offices and in his election to the governorship of New York in 1900. Roosevelt was an exciting personality—despite the paucity of his domestic achievements—and he succeeded in capturing the fancy and good-will of the American people. He preached the strenuous life and himself lived it. He was capable of coining fighting and derogatory phrases, and this pleased the man in the street; he adopted a vigorous foreign policy, and this fed the American national ego. In a certain sense, he did carry out his own precept of “speak softly and carry the big stick.” For by strengthening the American navy he was able successfully to defy Germany and Japan and compel their recognition of the United States as a force not to be easily disregarded.

But in the domestic scene, Roosevelt moved with great caution. He sought to win over the confidence of the Republican party machine, at the same time that he was making himself into a popular leader. When Mark Hanna died early in 1904, all opposition to Roosevelt collapsed and reluctantly the party elders accepted him. He was not to disappoint them until 1912.

*Roosevelt's Second Term.* Roosevelt's first

Congressional message, delivered on December 3, 1901, was an elaborate text in public affairs. He called for a greater degree of regulation of corporations and trusts; the extension of the powers of the Interstate Commerce Commission; an immigration policy; more reciprocity treaties; governmental encouragement of a merchant marine; the conservation of natural resources; and the extension of the Civil Service. He obtained none of these measures. But he did intervene to stop the continuance of a crippling coal strike; and he did “take Panama”—as he himself later boasted. The Republicans were compelled to nominate him, when they met in national convention in June, 1904; Charles W. Fairbanks of Indiana was named as his running mate.

The Democrats, who had lost twice with Bryan, sought a more conservative standard bearer and picked Alton B. Parker, Chief Justice of the New York State Court of Appeals, as their nominee. The campaign was without incident and resulted in the reelection of Roosevelt with the greatest popular and electoral majorities given to a candidate up to that time. Roosevelt received more than seven million popular votes to Parker's five million; and 336 electoral votes to Parker's 140. Parker won only the Solid South. The Socialists, again led by Eugene V. Debs, polled almost a half million votes; and the Populists, this time with Thomas E. Watson of Georgia as their candidate, obtained 117,000 votes. The Republicans also swept both houses of Congress. So pleased was Roosevelt with his personal triumph that on the night of the election he made a public announcement in which he declared that “under no circumstances will I be a candidate for or accept another nomination.”

Despite this easy victory, again domestic accomplishment was small. Roosevelt's two Congresses failed to pass bills calling for the following: the rehabilitation of the merchant marine, currency and banking reform, the federal control of child labor, copyright and patent reform, and the limitation of the powers of the federal courts in injunction proceedings. Roosevelt had biting things to say about "the malefactors of great wealth"; but his Department of Justice did not overexert itself in the enforcement of the Sherman Anti-Trust Law. He excoriated the conservative judiciary; but he led no movement to protect human rights. Big Business came to flower during his administrations.

The following were the slender achievements of his Congresses: The Hepburn Act of 1906 which further extended the powers of the Interstate Commerce Act, but failed to give the commission the right to fix the valuations of the railways; the Meat Inspection Act and the Pure Food Act, both also of 1906; the Employers' Liability Act of 1908, affecting common carriers and relating to workmen's compensation protection; an act, passed in 1908, limiting the hours of trainmen and telegraph operators working on interstate railroads; and an act, passed in 1907, prohibiting contributions to political campaign funds by industrial corporations.

*The Panic of 1907.* One event appeared to darken, for a brief time, the pleasant skies under which Roosevelt lived. This was the financial panic which hit the country in the fall of 1907. Again, as in 1873 and in 1893, the outstanding cause was the primitive nature of the American banking system; the absence of proper control over reserves deposited in New York banks, and the manipulation of these by the great investment banking houses, had given spur to stock market speculation. In 1907, as the business cycle turned downward, many brokerage houses and banks failed; country banks were hard hit; and they contracted their credit activities. The over-capitalized railroads once more began to fall

like ninepins; and unemployment became severe.

Roosevelt took a rather curious step to restore confidence. On the advice of J. P. Morgan, he gave his approval to the purchase by the United States Steel Corporation of the Tennessee Coal and Iron Company, because, presumably, the latter was in danger. The only real result was the strengthening of the United States Steel Corporation's control over the leading heavy industry in the United States. By the middle of January, 1908, the short depression had spent itself, and employment and expansion in business once more were resumed. The Republicans, therefore, could enter the presidential election of 1908 with confidence.

*Election of 1908.* Roosevelt dominated the Republican convention and named as his successor his personal friend and Secretary of War William Howard Taft of Ohio. James S. Sherman, a New York Congressman, was nominated for the vice presidency. The Democrats once more selected Bryan and named James W. Kern of Indiana to run with him. Both Debs and Watson again became the nominees of the Socialist and Populist parties, respectively. There was no uncertainty about the outcome despite the fact that Samuel Gompers, the president of the American Federation of Labor, gave Bryan his support. Bryan did somewhat better than Parker, carrying, in addition to the Solid South, all the Border states (except Maryland) and the three Western states of Colorado, Nebraska, and Nevada. The electoral vote was 321 for Taft and 162 for Bryan. Debs's vote went up somewhat; Watson's dropped sharply—and with it Populism disappeared. The Republicans also captured both Houses and seemed to be safely installed in Washington. Theodore Roosevelt, having seen his protégé inducted in office, took his departure immediately from the United States to hunt big game in Africa and to make a triumphal tour of the European capitals.

*The Taft Administration.* Roosevelt was

sure that "his policies" were safe in Taft's hands. But Taft had neither the personal magnetism nor the political skills of his predecessor. He was a big, jolly man—innately conservative, and willing to let the leaders of his party dominate his administration. It was Taft's unhappy lot to reap the whirlwind that Roosevelt had sown. His term in office, despite some good work, ended in disaster, with public confidence gone and the Republican party rent by factional quarrels. Theodore Roosevelt, it is true, had made Taft President; but Theodore Roosevelt's unredeemed promises of a new day and a square deal led to a general revolt—in and outside of the halls of Congress—against Republican rule.

That conservatism was once more in the saddle was apparent to all when—despite campaign pledges of tariff revision—the Republican Congress wrote the high protective Tariff Act of 1909. Republican insurgents in the Senate—led by La Follette of Wisconsin—exposed the bill for the shabby thing it was; Taft's tardy efforts at leadership were unavailing; and it became law. But the insurgents voted against it; and Taft's public defense of the measure only made matters worse. The result was, the Republicans lost the lower House to the Democrats in 1910. Insurgency swept the Western states; while Democratic governors were elected in Massachusetts, Connecticut, New York, Ohio, and New Jersey. In New Jersey, the new executive was the president of Princeton University, who had been born in Virginia but who had gone north to complete his studies and enter upon an academic career. His name was Woodrow Wilson.

*The New Nationalism.* A Congress thus divided was incapable of constructive labors. The next two years therefore were concerned with the clarification of party issues and the preparation of political manifestoes. In fact, in January, 1911, the insurgents organized the National Progressive Republican League and issued a declaration of principles which called for a complete overhauling of the country's

domestic policy. In addition to demanding better railroad, tariff, and corporation legislation, the League spoke up for "wise, comprehensive and impartial reconstruction of banking and monetary laws, the conservation of coal, oil, gas, timber, water powers, and other natural resources belonging to the public, and the enactment of legislation solely for the common good." Government had to be returned to the people; and this was to be done through the direct election of Senators, the initiative, referendum and recall, and presidential primaries.

Theodore Roosevelt was quick to see that the cause of his friend Taft was a lost one. He had returned to the United States in June, 1910, and had kept his counsel for a number of months. And then on August 31, 1910, in an address delivered at Osawatimie, Kansas, he joined the new legions of reform; in fact more, he offered his leadership. What the country needed was a New Nationalism; government had to participate actively in the social and economic life of the nation. And this was his creed:

I stand for the square deal. But when I say I am for the square deal I mean not merely that I stand for fair play under the present rules of the game but that I stand for having those rules changed so as to work for a more substantial equality of opportunity and of reward for equally good service.

In the light of these utterances, the insurgents called upon Roosevelt to join hands with them formally. Roosevelt replied evasively; but he gave his blessings to La Follette's candidacy for the Republican nomination. In 1911 the La Follette campaign was launched and it won wide approval; and so successful was it that Roosevelt began to take insurgency seriously. He let it be known he would not be averse to running again; and in February, 1912, a group of his friends appeared to urge him to do so. Later in the month Roosevelt announced his "hat was in the ring." In other words, he was ready to abandon both Taft and La Follette. In this fashion, the lines were drawn for the struggle over the Republican nomination of 1912.

## 2. BIG BUSINESS AND FINANCE CAPITAL

What had caused this rising of America's middle classes? Most important was a growing awareness of the fact that the country's economic life was being dominated by Big Business, and its banking institutions and money markets by Finance Capital.

*Consolidations in Business.* After the depression of 1893-97, the processes of corporate consolidation and business integration had been pushed energetically, with leadership not in the hands of enterprisers themselves but in those of investment banking houses. During the three years, 1899 to 1902, when the movement was at its height, 79 huge integrations were completed with a combined capital in excess of four billions of dollars. The greatest of these was the United States Steel Corporation, set up in 1901 and having a capitalization of one billion dollars in common and preferred stock and almost half a billion dollars in bonds. This was the country's first billion dollar corporation; and it controlled, virtually in a complete monopoly, the production of the heavy steel and a good part of the light steel output of the United States. Whether a monopoly or not, in the formal sense, United States Steel's price leadership was recognized by all American steel companies for the next two decades. Steel prices were "managed"; and monopoly profits were so great that the 50 percent water in United States Steel's securities was got rid of in less than fifteen years.

Other giant corporations put together by J. P. Morgan and Company and others were: the Amalgamated Copper Company, the American Tobacco Company, the American Woolen Company, the General Electric Company, the American Car and Foundry Company, the United States Leather Company, the United States Rubber Company, the International Paper Company, the Diamond Match Company, and the National Biscuit Company. By 1904, almost every field in

American heavy industry and many in light industry were dominated by these new great corporate powers. In 1904, John Moody, writing in his *Truth about the Trusts*, found that there existed in the country 318 industrial corporations with a combined capital in excess of seven billions of dollars. On his list were 10 with capitalizations of 100 million dollars or over; and 128 with capitalizations of 10 millions or over. All but 82 of these new corporations had appeared between January, 1898 and January, 1904. More than half of these corporations controlled price and production policies in the industries with which they were associated.

It is true that by 1904 this movement had largely spent itself. The reasons are interesting: (1) Most of the goals of the promoters had been achieved; in other words, all the significant industries capable of integration were already organized. (2) The greater part of the companies thus created were heavily overcapitalized, and their inability to earn profits on watered stock and fictitious values led to a growing distrust on the part of the investing public. In October, 1903, the securities of 100 of these new consolidations showed a shrinkage of 47 percent from their top prices. (3) In 1903 the Bureau of Corporations had been established by Congress and, while it had no judicial powers, its investigations did expose many of the more unsavory monopoly practices. (4) And, in 1904, the Supreme Court finally acted and used the Sherman Anti-Trust Law to order the dissolution of the Northern Securities Company—a railway holding company put together by the two great investment banking houses of J. P. Morgan and Company and Kuhn, Loeb and Company.

*The Supreme Court.* It was not until 1911 that the Supreme Court took cognizance of the existence of industrial monopoly. In that year, it handed down two decisions in which

it found that both the Standard Oil Company of New Jersey and the American Tobacco Company were combinations in restraint of trade under the Sherman Law. The Court was troubled, however, by the too sweeping nature of the restraints to be found in the Sherman Act; "the exercise of judgment" was therefore necessary. Hence a "rule of reason" was required; and the only agency that might employ it was the Court itself. Thus, two of the largest holding companies in the country were broken up and competition again, presumably, reigned in oil and tobacco. Of course nothing of the sort occurred; for the same persons who had dominated the holding companies were now in charge of the smaller companies; nor did prices go down. It was no wonder that reformers were not impressed over what President Taft hailed as a great victory.

*The Investment Bankers.* Attention has been called to the leading role played by the investment banking houses in the creation of these new monopoly groups. Greatest of these was the house of J. P. Morgan and Company, which had originated as early as 1837, but which had not become important until the 1880s when Morgan had entered the field of railroad refinancing. In 1887, the Morgan firm rehabilitated the Baltimore and Ohio; in 1888, it became prominent in the destinies of the Chesapeake and Ohio; and in 1893, it created the Southern Railway Company. During the depression of 1893-97, it reorganized, recapitalized, and came to dominate many of the great railways systems of the United States. In the nineties, the Morgan firm turned to heavy industry and created a great rival to the Carnegie Steel Company in the newly formed Federal Steel Company. The contest between Federal Steel and Carnegie Steel led to the creation of the United States Steel Corporation of 1901. In the early 1900s, the Morgan firm also became an important influence in the destinies of the following huge corporations: the International Harvester Company, the General Electric Company, the

American Telephone and Telegraph Company, the Western Union Telegraph Company, and the International Mercantile Marine Company.

What alarmed Americans more than anything else was the growing community of interest between the investment bankers on the one hand and the country's fiduciary and banking institutions on the other. For not only did the Morgan partners sit on the boards of directors of railroads, industrial corporations, and communications systems; they also seemed to be controlling the largest insurance companies, the trust companies, and the commercial banks of America. Morgan partners were to be found on the boards of the Mutual Life Insurance Company, the New York Life Insurance Company, and the Equitable Life Assurance Company; the Manhattan, Bankers, and Guaranty trust companies; and the Chase, Liberty, Hanover, and Astor national banks. In all, Morgan and his partners held 77 interlocking directorates in 47 of the greatest financial, industrial, and transportation corporations in the country. The total capitalization and resources of these companies came to ten billions of dollars.

Other such communities of interest were dominated by the Rockefeller fortune, operating through the National City Bank of New York; by George F. Baker, the president of the First National Bank of New York; by Kuhn, Loeb and Company, headed by Jacob H. Schiff; and by the Boston houses of Lee, Higginson and Company and Kidder, Peabody and Company.

*The Pujo Committee Investigation.* Upon these, the Pujo Committee—a subcommittee of the Democratic House's Committee on Banking and Currency—descended in May, 1912. It made a searching examination of the communities of interest existing and it found a resulting concentration of credit and money. This had been brought by the following methods: mergers of competitive banks and trust companies; purchase of stock in competitive banks; interlocking directorates; the



extension of banking influence into insurance companies, railroad companies, and public utilities; and syndicate financing of security issues. The Pujo Committee came to this conclusion:

Your committee is satisfied from the proofs submitted . . . that there is an established and well-defined identity and community of interest be-

tween a few leaders of finance . . . which has resulted in great and rapidly growing concentration of the control of money and credit in the hands of these few men.

It was inevitable that the revelations of the committee, as they were made from day to day in the public press, should play a large part in the mobilization of public opinion and in the outcome of the election of 1912.

### 3. OTHER INFLUENCES ON THE REFORM MOVEMENT

The reform movement had also drunk at other springs. Reform had first appeared in the states and had gained notable victories. Led by men like Robert La Follette in Wisconsin, it had fought and broken the alliance between Big Business and machine politics, had passed welfare legislation, and had established direct government. Socialism, too, was making its message known to the United States. Joined by many native born Americans, and penetrating deeply into the trade union movement, it was educating Americans in the greater progress European countries were making in the fields of social legislation. The Socialists possessed a very capable press which, in dailies, weeklies and monthlies, was going out regularly to hundreds of thousands of American urban and rural homes.

*The Muckrakers.* Not least among these forces were the so-called Muckrakers, who wrote sensational articles of "exposure" in the new and cheap popular magazines. They had been given their name by Theodore Roosevelt in 1906, and he had used the term invidiously. The time had come for a halt on the mere collection of unsavory facts about business and government; let us, said Roosevelt, turn our attention to constructive work. But there was no denying that public enlightenment could not have advanced very far had it not been for the sensational tales of these young magazine writers. Encouraged by the editors of magazines like *McClure's*,

*Everybody's*, *Collier's* and the *Cosmopolitan*, the Muckrakers went up and down the land and pried into the doings of the big corporations and public officials. They wrote articles of corrupt franchise sales, the fraudulent letting of contracts, payroll padding; of the slums and of the suffering of the poor; of the alliance of the police with vice. They visited state capitals and came back with tales of the influence of lobbyists, the bribing of legislators, and the workings of the "invisible government" of machine politics. They looked into the conduct of business enterprise and exposed worthless stock schemes, dishonest insurance companies, and the monopoly practices of great companies.

Outstanding among these exposés was Ida M. Tarbell's *History of the Standard Oil Company*, which *McClure's* began to print in 1903; Lincoln Steffens' *Shame of the Cities*, printed in *McClure's* in 1904; Ray Stannard Baker's *Railroads on Trial*, also in *McClure's* in 1905 and 1906; Thomas W. Lawson's *Frenzied Finance*, in *Everybody's* in 1905. Novelists took up the tale, and a series of important social documents came from the pens of men like Upton Sinclair, whose *Jungle* (1906), was concerned with the Chicago stockyards; Frank Norris's *Octopus* (1901), which told of the struggles of the farmers against the domination of the Southern Pacific Railroad; Winston Churchill's *Coniston*

(1906), which had to do with the political processes of a New England state.

This company was joined by political and social theorists, who began to explain the need for the assumption of a greater responsibility on the part of the government toward business and the social processes. Among these were to be found Herbert Croly's *Promise of American Life* (1909); Walter Lippmann's *A Preface to Politics* (1913); Walter Weyl's *New Democracy* (1912); and Jane Addams' *The Spirit of Youth and the City Streets* (1909).

*Accomplishments.* These pressures had their effect; and there began to appear on state statute books many reform acts, which had to do with the extension of direct government, the more careful supervision of corporate practices, and welfare legislation. Characteristic of the first were laws establishing the direct primary, the initiative and referendum, and the recall of elective officials. Legislators were being held responsible for the naming of United States Senators chosen by the people themselves; and in 1913, the Seventeenth Amendment, for their popular election everywhere, went into effect. Similar progress had been made in connection with the grant of the franchise to women in state elections; in 1920, the Nineteenth Amendment, giving all women the vote, was proclaimed.

Reformers also sought to attack corporate privilege in the states by passing antilobbying

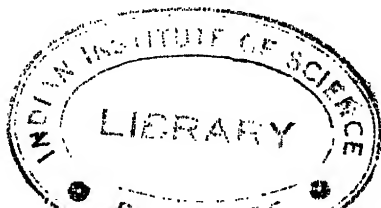
laws, laws controlling the granting of franchises, and laws creating public utilities commissions, to regulate the practices of transportation, electric, gas, and water companies. The number of state elective officials was reduced, the executive budget was created, and the civil service was extended. Municipal governmental processes similarly were improved; home rule was granted to many cities; new charters were written, providing for the centralization of responsibility in the hands of small elective commissions; and city manager plans, executive budgets, the standardization of salaries, and public letting of contracts were widely adopted. The municipal ownership of water supply system, gas and electric plants, and transportation facilities became common.

Finally in many of the states, welfare legislation began to make its appearance. These new codes included workmen's compensation laws; laws raising the ages of entry of children into industry; laws fixing maximum hours of work for children, women, and even men; minimum wage laws for women; safety and health codes; mothers' assistance acts to furnish public aid to dependent children; and old age pension laws. This was trail-blazing of a significant character. Another two decades were to elapse, however, before the Federal government was to enter the field of social legislation.

#### 4. THE WORKERS

*The American Federation of Labor.* During this period, the trade union movement was on the defensive. The American Federation of Labor had got off to a good start, in the late 1880s, when it was able to claim the affiliation of twelve national trade unions with a membership of 140,000. Samuel Gompers, who continued to be elected president of the A.F. of L. annually until 1924 (except for the single year 1894), was the movement's un-

contested leader and source of inspiration. Trade unions—largely based upon the crafts—were to be free and independent associations; they were to eschew government aid; they were to take care of their own unemployed, sick, aged, and needy through friendly benefits; and they were to be militant. Using the weapons of the strike and boycott, the unions were to fight for recognition—through the trade agreement and the



closed shop—and for higher wages and shorter working hours. This was “pure and simple trade unionism” to Gompers’s enemies: for American craft unionism had neither a political program nor a radical ideology. This was the principle of voluntarism; it remained at the heart of American trade union theory and tactics until 1935.

The A.F. of L. unions made notable advances from 1893 to 1907. They won eight-hour day contracts in many industries; succeeded in writing trade agreements; and sometimes even obtained the recognition of the union shop. By 1900, the A.F. of L. unions claimed a membership of 550,000; by 1905, this had grown to 1,600,000, in 90 national and international bodies. But from 1907 to 1914, trade unionism made no headway. The great corporations were able to fight back effectively, and they met fire with fire. They locked out workers; banded together to resist the union shop; and appealed—successfully—to the courts, through injunctions, to stop boycotts and halt strikes. Unions were even sued for damages under the Sherman Anti-Trust Law and, as a result of the Danbury Hatters case, even the property of workers themselves was attached in satisfaction of one such judgment. This so-called open-shop movement was successful; so that, in 1914, A.F. of L. unions had only 2,000,000 members. Unionism had made no progress in the metals and machinery industries, in meat packing, water transport, and oil refining.

American trade unionism had displayed structural weaknesses as well. Organization on the basis of crafts inevitably led to jurisdictional disputes between the unions themselves. This was true not only of those industries where a certain degree of skill continued to exist; it was more particularly so of those where technological advances had wiped out all the lines of demarcation between crafts. In these so-called mass production industries, unionism got nowhere. Industrial unionism was the only answer; and this did not appear until the 1930s.

*Socialism.* Upon the inadequacies of the labor movement, the growing disparities between wealth and poverty, and the inability of real wages to climb—for the first time in American history—radicalism thrived. Socialism grew by leaps and bounds. It was revisionist and gradualist; it had the inspiring leadership of ‘Gene Debs; it had a fine press and an excellent youth organization. In 1910, it elected a mayor of Milwaukee and sent the first Socialist Congressman to Washington. In 1912, Debs polled almost a million votes. Socialist officials were no longer rarities and were to be found everywhere in the United States in state legislatures and municipal councils. It appeared that here was America’s third party movement finally and permanently emerging.

*The I.W.W.* Farther to the left was another home-grown radical organization, the Industrial Workers of the World. Appearing in 1905, the I.W.W. espoused a syndicalist philosophy, that is, the revolutionary organization of workers into industrial unions to preach the class struggle and to organize the future classless society. The I.W.W., like all syndicalist movements, was hostile to the state, and therefore refused to enter politics. Its leaders were fearful of the effects of industrial collaboration, and would sign no trade agreements. Their chief tactic was sabotage; their “myth” the general strike. Under such relentless pressures, capitalism would succumb and the “syndicates” would take over.

The I.W.W. made its strongest appeal to the migratory workers of the Far West; the unorganized workers of the South; and the new immigrants from southern and eastern Europe. It waged many aggressive strikes and some of its huge demonstrations took on the aspect of mass uprisings. Meeting with successes among the metal miners and lumber-camp workers of the Far West, it moved east in the 1910s and appeared among the steel workers of Pennsylvania and the textile workers of Paterson, New Jersey, and Lawrence, Massachusetts. Because it was a revolutionary

movement, it was savagely resisted. But it had a fatal weakness: it could not build stable

unions, and its membership was floating and transitory.

## 5. THE NEW FREEDOM

*The Election of 1912.* Out of such a background of discontent and unrest emerged the New Freedom. The deep division in the ranks of the Republicans indicated that now, for the first time in two decades, the Democracy once more had its opportunity.

The Republican convention met in June, 1912. The delegations pledged to Roosevelt were given short shrift and the hand-picked Taft supporters were seated. Taft and Sherman were renominated. The platform paid no attention to the clamor for change and sought the support of the electorate on the basis of Taft's achievements in office.

The Democrats assembled at the end of June in Baltimore, where immediately a bitter contest developed between the backers of Champ Clark, Democratic speaker of the House, and Woodrow Wilson, New Jersey's governor. Bryan stood on the sidelines (hoping that the supporters of the two leading candidates would remain deadlocked); but when he saw Tammany Hall switching its support to Clark, he turned to Wilson. Because the rules of the Democratic convention still required a two-thirds vote for a choice, it was not until the forty-sixth ballot that Woodrow Wilson was named for the presidency. Governor Thomas R. Marshall of Indiana was nominated as his running mate. The platform was a Bryan document and had something in it for every reformist group.

On August 5, the Roosevelt supporters assembled at Chicago for the purpose of creating the Progressive party. Roosevelt was nominated by acclamation and to run with him Hiram W. Johnson, California's reform governor, was chosen. The Progressive platform called "A Contract with the People"—was not very much unlike that of the Democrats, except that it was more solemnly phrased and

spoke in the language of high evangelical endeavor.

It was plain that Taft was out of the running; the contest was between the Democratic and the so-called Bull Moose forces, and it was wordily waged. Roosevelt called for a strongly organized central government, which was to act as the reforming agency. Wilson placed his faith in the states. Roosevelt regarded the processes of concentration and corporate activity as inevitable, but he advocated the strictest governmental supervision to protect the consumer and the small businessman. Wilson was not opposed to Big Business, but only to those concerns that had established monopolies; these had to be broken up. Small business, following Louis D. Brandeis, he regarded as the normal; Big Business was suspect. There was an important difference in philosophy here; but Wilson's was much harder to realize than Roosevelt's. The electorate made little effort to differentiate between the two, Roosevelt's "New Nationalism" and Wilson's "New Freedom" sounding very much the same to untrained ears. It is doubtful if the independents voted for either; for Debs's large vote indicated that here is where the real protestants went.

Wilson was elected to the presidency, although he obtained only a plurality of all the ballots cast. Wilson's popular vote was 6,286,000; Roosevelt's 4,126,000; Taft's 3,484,000; and Debs's 987,000. The electoral vote which made Wilson President was as follows: Taft 8, Roosevelt 88, and Wilson 435. The Democrats, too, swept the Congressional and Senatorial elections for the first time since 1892.

*State Interventionism.* The implementation of the New Freedom marked a landmark in American public affairs: it was the beginning of state interventionism on a large scale. Un-

der Woodrow Wilson, government seemed to move over the whole economic landscape to regulate and control. Not quite the whole: for while labor—it was assumed—was to be protected from the injunction and child labor, presumably, was outlawed, not even a start was made in the field of social insurance. To this extent, it may be said that the New Deal took up where the New Freedom left off; and only then was completely realized the original program of the social reformers of the first decade of the twentieth century.

*Tariff of 1913.* In his First Inaugural, Wilson pledged his administration to the support of three major domestic policies: tariff revision, banking and currency reform, and additional trust legislation. In less than a year and a half, acts covering these subjects were passed; they represented achievement of the highest order. The so-called Underwood Tariff Act of 1913 revised sharply downward most of the rates in all its fourteen schedules. In all there were reductions on 958 items; and an over-all cut of 10 percent from the average of duties in the Tariff Act of 1909. This was moderate protectionism, to be sure, but it was a protectionism that sought to cover only infant industries; and the act's free list, particularly of daily necessities and of articles in common use by farmers, was very large. Finally, it was the first tariff law to incorporate an income tax, which had been authorized through the ratification of the Sixteenth Amendment in 1913.

*Federal Reserve Act.* Next came the writing of the Federal Reserve Act, which President Wilson signed on December 23, 1913. The inadequacies of the national banking system, by this time, had been generally recognized by legislators, bankers, and businessmen. It had provided the country with an inelastic currency; the reserve system it had set up was largely a fictitious one; and it had no machinery—through the rediscount rate and open market operations—to control the booms and depressions of the business cycle.

Following the panic of 1907, Congress had

sought to write new financial and monetary legislation; and it had passed the Aldrich-Vreeland Act of 1908. The most important part of this law was the provision for the creation of a National Monetary Commission to be made up of Senators and Congressmen. This commission, under the chairmanship of Senator Aldrich, from 1908 to 1912 made a series of elaborate examinations into the banking and currency systems of European nations; and it prepared a bill which had some influence upon the final shaping of the Federal Reserve Act.

The new banking law was largely written by the House Committee on Banking and Currency, of which Carter Glass was chairman. First introduced in June, 1913, a completed measure emerged in less than six months. The outstanding characteristics of the Federal Reserve System, thus created, were the following: (1) There were to be twelve federal reserve banks as against a central bank. (2) There was to be an elastic currency based on commercial and agricultural paper. (3) There was provided the mobilization of reserves in the federal reserve banks, which made them, as Glass said, "instead of private banks in the money centers, custodians of the reserve funds of the nation." (4) Government money (federal reserve notes), in place of the bank notes of the former national banking system, was to be the basis of the country's currency. (5) The federal reserve banks were invested with the rediscount function, so that member banks were in a position to sell their commercial paper and government securities to these agencies; and the reserve banks, by raising and lowering their rediscount rates—and the reserve requirements—could contract and expand the flow of commercial credit. Also, the federal reserve banks might engage in open market operations, and they were to issue the federal reserve notes. The whole system was placed under the control of a Federal Reserve Board of seven members, two of whom were to be the Secretary of the

Treasury and the Comptroller of the Currency and the other five were to be appointed for ten year terms by the President with the consent of the Senate. For the first time, some attention was paid to the needs of the agricultural communities of the country for an expanded credit. The rediscount period for commercial paper was to be three months; but for agricultural paper it was to be six months.

*Anti-Trust Legislation.* On January 20, 1914, President Wilson once again appeared before Congress, this time to ask for the vindication of his campaign pledges concerning the trusts, and more particularly for legislation to establish free competition once more in the American business life. The keystone of the President's trust program was the proposition that "private monopoly is indefensible and intolerable." Congress immediately complied and in September, 1914, it passed the Federal Trade Commission Act and in October, 1914, the Clayton Anti-Trust Act.

The Federal Trade Commission Act abolished the Bureau of Corporations and in its place created an agency which was to have both investigative and regulatory powers. It could conduct investigations on its own account or at the request of the President or Congress. As a regulatory body, it was empowered to declare "unfair methods of competition and commerce" illegal. Having determined that such unfair methods existed, upon complaint, it could issue "cease and desist orders," which were enforceable in the federal courts. It is to be observed that criminal or civil penalties for violations of the commission's orders were not incorporated in the act; rather, it was the intention of Congress to utilize the commission, through investigation and publicity, for the purpose of establishing the existence of practices that were curtailing "effective competition." Once unlawful restraints of trade were indicated, the government had at its command the Sherman Law and the newly enacted Clayton Law as punitive devices.

The Clayton Law was, in effect, an amendment to the Sherman Law and it contained principally three distinct sets of provisions: (1) It prohibited certain corporate practices, notably those that had to do with interlocking directorates in industrial corporations and banks. (2) It prescribed remedies for relief. (3) And it excepted organized labor from the provisions of the anti-trust laws. The labor provisions of the act were to be found in Sections 6 and 20. Section 6 was hailed as trade unionism's Magna Carta, because it declared that "the labor of a human being is not a commodity or article of commerce; nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, and horticultural organizations." Section 20 sought to protect workers from the indiscriminate use of injunctions by the federal courts. Unfortunately, in the twenties, the federal courts and more particularly the Supreme Court found big enough loopholes in both the sections to render them virtually nugatory. It was not until the passage of the Norris-La Guardia Anti-Injunction Law of 1932 that labor was finally given adequate defenses against legal abuses; and not until the passage of Section 7(a) of the National Industrial Recovery Act of 1933 and the Wagner Labor Relations Act of 1935 that the independence of trade unionism in the United States was finally recognized.

*Farm Legislation.* Nor did the New Freedom neglect the needs of the farmers. The Federal Reserve Act had given attention to their demands for more short-term credit facilities. The Federal Farm Loan Act of 1916 created a machinery for the financing of their long-term credit requirements. Patterned after the Federal Reserve System, the Federal Farm Loan System set up 12 federal land banks, in as many districts, which were to help finance the activities of cooperative farm loan associations and joint-stock land banks. Each farmer could borrow up to 50 percent of the value of his land and 20 percent of the

value of his permanent improvements. Finally, in 1923, Congress rounded out this program when it established the federal intermediate credit banks, to rediscount agricultural paper and to lend directly to farm cooperatives.

In addition, Wilson's Congresses passed the La Follette Seamen's Act of 1915, which was a charter of liberties for America's seamen; the Keating-Owen Child Labor Act of 1916, which was designed to prevent the entry into interstate commerce of the products of child

labor; and the Adamson Law of 1916, which established the eight-hour day on interstate railways. The New Freedom might have continued exploring other fields; but dark clouds were forming over the skies of Europe, and before long the world was plunged in a sanguinary war. Although the United States proclaimed its neutrality at once, it was inevitable that Washington should be involved in war questions. An examination of the foreign policies of Roosevelt and Taft is in order first, however.

## 6. FOREIGN AFFAIRS UNDER ROOSEVELT, TAFT, AND WILSON

*Foreign Policy Under Roosevelt.* In his relations with other nations, Theodore Roosevelt pursued an aggressive course. He defended and extended the Monroe Doctrine; he acquired the Panama Canal; he intervened actively in African and Asiatic affairs; and he built up the American navy until its power was second only to Britain's. When Roosevelt left the White House, these two precepts had become the common coin of American foreign policy. The United States, with economic interests all over the world, was an international power, whose spokesmen were entitled to an equal place at the council tables of the world. And the United States was sovereign in the Western Hemisphere; it was to us that Europe might look for the maintenance of the peace and the discharge of their financial obligations by Latin American nations. (This meant intervention, of course; and it took almost a quarter century before the United States was ready to recognize it had erred when it claimed this right.)

*Panama.* In 1902, when European Powers threatened to land in Venezuela to force the satisfaction of the financial claims of their nationalists, Roosevelt at once interceded and compelled the establishment of an arbitral machinery. Panama, also, had his constant attention. Reference has already been made to

the fact that Great Britain had consented to a revision of the earlier Clayton-Bulwer Treaty of 1850, under which any isthmian canal constructed by either the United States or Great Britain would be jointly controlled and would be neutralized for the service of all nations. In February, 1902, the Hay-Pauncefote Treaty between the two countries was ratified under which the early convention was abrogated and the United States' exclusive rights in the building and fortification of a canal were recognized.

Meanwhile, a French company had begun the construction of a canal across the isthmus, but it had gone into bankruptcy. Its properties and claims had been taken over by the so-called New Panama Canal Company, which had placed a value of \$110,000,000 on its rights. But Congress was much more responsive to the idea of building across Nicaragua; and, in fact in 1902, the House had passed a measure authorizing such a project. Roosevelt himself favored Panama; brought pressure to bear on Congress; and Congress, in turn, yielded. In June, 1902, it passed an act which authorized the purchase of the New Panama Canal Company's claims for \$40,000,000 and the opening of negotiations with Colombia for the acquisition of perpetual control of a canal zone at Panama. But Colombia now be-

gan to delay and evinced no interest in the ratification of a convention with the United States. It was at this point that Roosevelt intervened. The province of Panama, in November, 1903, revolted and was immediately recognized as an independent nation by the United States. The history of this uprising is somewhat obscure; but there is no doubt that the immediate appearance of American warships on the scene prevented the Colombian army from effectively coping with the insurgents. In any case, on November 18, Panama formally signed a treaty with the United States.

The United States recognized Panama. In return: we were granted in perpetuity the use of a Canal Zone ten miles wide; the Republic of Panama transferred to the United States the properties of the New Panama Canal Company and the Panama Railroad Company; and Panama was to receive \$10,000,000 in gold and an annuity of \$250,000. Construction was commenced in 1907 and seven years later the first ocean steamer passed through the completed Panama Canal. It had cost the United States \$275,000,000 to build and another \$113,000,000 to equip with military and naval defenses. The protection of the seaways leading to the Canal continued to be the basis of American interest in the Caribbean region.

*The Roosevelt Corollary.* It was because of this preoccupation that Roosevelt, during 1904-5, was to enunciate the so-called Roosevelt Corollary of the Monroe Doctrine. As a result, for twenty-five years, Latin American countries continued to regard the United States with hostility. In effect, the corollary meant that the United States assumed complete responsibility for the maintenance of civil order and the protection of property rights, European as well as American, in the Western Hemisphere; the Monroe Doctrine, said Roosevelt, forced the United States "to the exercise of an international police power."

The outbreak of a series of insurrections in the Dominican Republic, between 1899 and

1905, had encumbered the government with a great debt, two thirds of which was held in Europe. The inability, or the failure, of the Dominican government to service these obligations led to continued pressures by European nations on the Dominican officials. These threatened to intervene; and the impending crisis prompted Roosevelt, in his Congressional message of December 2, 1904, to enunciate his doctrine. The Dominican Republic bowed before the inevitable, and wrote a treaty with the United States which accepted American supervision of its custom houses and management of its finances. The Senate was reluctant to ratify the original convention; but in 1907 finally consented. The Dominican Republic, later Haiti and Nicaragua—in fact the Caribbean region and Central America—virtually became American protectorates.

*Asia and Africa.* Roosevelt was to be found interesting himself in the Far East and in the Mediterranean as well. The Russo-Japanese War had broken out in February, 1904 and, after it had dragged on for a year, Roosevelt proffered his services as mediator. The United States, because of the Philippines, was in the Pacific; furthermore, Roosevelt did not want to see a decisive victory for either Japan or Russia lest the balance of power in the Far East be upset. In the summer of 1905, Roosevelt's good offices were accepted, and on August 9 a peace conference was assembled at Portsmouth, New Hampshire. The treaty that followed was a triumph for Roosevelt and American diplomacy; Japan and Russia both remained in eastern Asia to watch each other.

Roosevelt also insisted that America had rights in the Mediterranean which the European powers had to consider in their fight over the partition of Morocco. A conference at Algeiras, Spain, was held in January, 1906, in which American delegates participated. The convention that followed recognized Morocco's territorial integrity; guaranteed the Open Door to the merchants and investors



of all nations; and created a police force under the joint supervision of France and Spain.

*Taft's Foreign Policy.* President Taft continued along the lines laid down by his predecessor. The United States intervened in Honduras and Nicaragua; and it pressed vigorously for the right of American capital to participate in the development of China. In the latter case, we were not too successful, for American bankers were admitted to participation in only one railway loan—and that a joint one. We were not yet powerful enough financially to push our claims to recognition as an investor nation. But the 1940s were to tell another story.

*Wilson and the Caribbean.* Woodrow Wilson—despite his lofty pretensions—made no effort to jettison the policies of Roosevelt and Taft. They had been engaged in adventures in “dollar diplomacy”; and he regarded with disfavor intervention to protect property rights. Thus, at Mobile, in October, 1913, he could say: “It is a very perilous thing to determine the foreign policy of a nation in terms of material interest. It not only is unfair to those with whom you are dealing, but it is degrading as regards your own actions.” This was a distinction without a difference; for Wilson was to meddle in the Caribbean and in Mexico for security reasons, if not for economic ones; in any case, it was intervention.

Marines were landed and a naval administration was set up in Haiti in 1915; the same tale was repeated in the Dominican Republic in 1916; our forces continued to dominate Nicaragua. And, in 1917, the United States bought the Virgin Islands from Denmark for \$25,000,000.

*Mexico.* Wilson's record in Mexico was no better. He laid down the dubious principle that governments established by revolution were not to receive recognition; and then violated it himself by seeking to distinguish between “good” and “bad” revolutionists.

In 1911, under the leadership of Francisco

Madero, Jr., the dictatorial Díaz government of Mexico was challenged and in May of that year Díaz, recognizing the inevitable, abdicated. Madero entered Mexico City in triumph; but the next year was to see internecine warfare breaking out among the revolutionary generals. The United States was cool to Madero; he could not cope with the insurgent armies; and in February, 1913, he was killed by the order of Victoriano Huerta. Huerta proceeded at once to install himself as provisional president.

In March, 1913, Wilson indicated his displeasure. He declared that he would have nothing to do with Huerta or with any government based on military seizure. He was interested in seeing a truly democratic government established in Mexico, and such he was prepared to assist; but he would not, he promised, send an armed force into Mexico to protect American business interests. Wilson's refusal to recognize Huerta had no effect on the European Powers, which, by the middle of 1913, had generally recognized the *de facto* government.

Wilson called his policy one of “watchful waiting”; this, however, did not prevent the running of guns into Mexico to assist the anti-Huerta forces. In 1914 he was intervening when Mexican ports were blockaded and American marines seized Vera Cruz. Huerta gave up the unequal struggle; he was succeeded by Venustiano Carranza; and soon the insurgent leaders fell to quarreling—and fighting—among themselves. In October, 1915, Wilson decided to recognize Carranza, and in this he was followed by the Latin American and European nations.

Francisco Villa, another popular leader, was displeased. He engaged in reprisals against Americans in Mexico and then, in March, 1916, he crossed the American border and raided the town of Columbus, New Mexico. An American punitive expedition was immediately dispatched into Mexico, headed by Brigadier General John J. Pershing; and in June, 1916, Wilson called upon all the state

militias of the nation to mass on the border. Pershing stayed in Mexico nine months and came out in February, 1917, without however, having caught Villa.

Our involvement in Mexican affairs did not terminate here. A new Mexican constitution was drawn up in the spring of 1917, which not only incorporated progressive social legislation; it secularized education, nationalized Church properties, and declared that the soil and subsoil of Mexico belonged to the Mexican

people. The Catholic Church was alarmed, as were British and American interests, which had obtained their concessions for a song from the corrupt Díaz government.

Both these groups brought pressure to bear on Wilson and, in fact, there was a party in his Cabinet that urged our intervention again. But Wilson was now deeply immersed in European problems; indeed, when the radical Mexican constitution was promulgated we were already at war.

## 7. WORLD WAR I

*Neutrality.* World War I had broken out in August, 1914 and, despite America's sincere efforts to remain neutral, it became at once apparent that the United States could not keep clear of the struggle. The concept of "neutrality" had been devised for a simpler day: for it was based on the assumption that a nonbelligerent could continue trading with both parties in a war—as long as the rules were observed—without real risk to itself. Wilson called upon Americans to remain "impartial in thought as well as in action"; but we could supply and finance both sides—as far as we were willing and able.

For this the President was universally applauded; but it was soon clear that American isolation could not be safeguarded. On the one hand, American neutrality was being sorely tried by the British, whose rewriting in their own interest of maritime law gravely abridged American freedom of the seas; and on the other hand, the declaration by Germany of unrestricted submarine warfare jeopardized American lives and shipping. From the legal point of view, both Britain and Germany were violating America's neutral rights; morally, however, it was becoming Wilson's conviction increasingly that Germany was the threat to the peace of the whole world.

It should be observed in passing that Secretary of State Bryan did not see eye to eye

with his chief; and he protested vigorously against the violation of America's neutral rights by the British navy. Bryan, however, received neither the support of Woodrow Wilson nor that of the American ambassador at London, Walter Hines Page. The result was, not only did the British set up an illegal blockade, but they also vastly extended the contraband lists until virtually there was no longer a distinction between goods destined for the aid of the armed forces and those for the civilian populations. Further, Britain extended the right of search, and brought American ships into British ports in order to examine their cargoes and frequently to detain them for many months on end. It was felt by many Americans that Britain was as much interested in preventing American goods from entering legitimate European markets as it was in starving the German civilian population and crippling the German military machine. In any case, American protests against the British practices went unheeded, so that in effect, by 1916, we were actually adopting a policy of benevolent neutrality toward the British blockade.

*The Lusitania.* Ironically enough, the Germans, when they launched their submarine attacks, claimed that the illegal British blockade forced them to resort to desperate measures. For, in February, 1915, the Germans declared that all the waters surrounding Great

Britain and Ireland constituted a war zone and that all vessels entering the area would do so at their own risk. This was the opening of Germany's campaign of unrestricted submarine warfare.

In March an American lost his life as a result of submarine action when a British ship was sunk; on May 1, an American ship was attacked and two Americans were killed. And then on May 7 the *Lusitania*, the British Cunard line's crack ship in the North Atlantic passenger trade, was struck by two torpedoes and sank in eighteen minutes. More than 1,100 passengers and crew went down with the ship, among them 124 American citizens.

Immediately, Woodrow Wilson issued a solemn warning to the Germans: the American government refused to accept the utilization of the submarine as a lawful device of warfare; we would hold the German government to "strict accountability." The failure of the Germans to give assurance that submarine attacks would terminate led to a second note in June. This Bryan refused to sign and he resigned from the State Department. The third note of July 21 was actually an ultimatum. In September, the Germans gave way before the American pressure and promised the abandonment of unrestricted submarine warfare against passenger ships. But in March, 1916, the sinking of the French steamer *Sussex*, with a loss of three American lives, led to a demand that submarine warfare be entirely terminated. If the Germans refused, Wilson went on to say, diplomatic relations between the two governments would terminate. In May, 1916, the Germans capitulated and the threat of war was laid at rest for another nine months.

*The Election of 1916.* It was in the midst of war alarms that the election of 1916 took place. The conservatives were once more in control of the Republican party and, when its convention met at Chicago in June, they nominated Supreme Court Justice Charles E. Hughes of New York for President and Fair-

banks of Indiana for Vice President. The Progressives also assembled at Chicago and again they named Theodore Roosevelt for their candidate; as had the Republicans, the Progressives attacked Wilson's foreign policy. But Roosevelt knew he had run his brief race, and he declined the Progressive nomination. He called upon "all progressive-minded and patriotic-minded men" to support Hughes; and in doing so, he killed the movement that had sought to reform the Republican party.

The Democrats renamed Wilson and Marshall; and, naturally, they pointed with pride to their impressive achievements during the previous four years. The canvass itself was conducted with much heat and little light. Both parties insisted that the United States be kept out of the war; but the Republicans made more mistakes than the Democrats. The Republicans cultivated pro-German groups; and Hughes, when he went to California, refused to meet Hiram Johnson. This last was fatal to his cause, for he lost California by a handful of votes—and the election, as a result. Wilson received 9,130,000 votes; Hughes got 8,540,000; Allen L. Benson (the Socialist candidate) got only 585,000. In the electoral college the vote was 277 to 254. The Democrats again captured both Houses.

*American Entry into World War I.* Wilson's followers had used tellingly the slogan "He kept us out of the War," and this undoubtedly had had a great effect in the Middle West. Yet every conceivable influence was being utilized, willfully or not, to drag us into the conflict. The land was filled with the propaganda of British and French agents. The British controlled the Atlantic cables so that only the news favorable to their cause reached the American reading public; this was particularly true of the tales of German "atrocities" in Belgium. On the other hand, the Germans here handled themselves without skill. They identified themselves with the wrong people; were caught red-handed in

lots to destroy American munition plants; and suffered the ignominy of having their military and naval attachés recalled from Washington.

Nor must our growing industrial and financial ties to the Allied powers be disregarded. When war broke out not only did the New York Stock Exchange close, but a business recession hit the country. Prosperity slowly returned only because of the following: (1) Americans began to supply Allied needs for munitions, raw materials, and foodstuffs in growing quantities. (2) American foreign trade was also growing in other regions, largely at the expense of the English. (3) European loans were being raised in this country; and this in turn led to an expansion of bank credit and of industrial enterprise.

In the beginning, the English and the French sought to finance their war purchases in the United States by shipping gold and repatriating European-owned American securities. But the bottoms of these barrels were scraped clean very soon; Americans had to assist financially if their wartime prosperity was to continue. The result was the flotation of the first great Anglo-French loan for 500 million dollars in October, 1915. In 1916, four additional loans brought in another half billion. In addition, the Allies continued to finance their purchases through short-term treasury bills. By the end of 1916, the Federal Reserve Board took alarm. Too much, it pointed out, of the liquid funds of American banks were being tied up in the treasury bills of the Allied governments; member banks were warned against the continuance of such practices. On the other hand, it is important to observe that because of the blockade, the Germans could make few purchases in this country; and not more than 20 million dollars in German securities were disposed of here.

Meanwhile, throughout the country, more and more voices were being raised in behalf of American intervention. Germany was seek-

ing to establish its political hegemony over the whole world; if Britain failed, the United States would inevitably be the next victim of the German might. (That this analysis was not wide of the mark was indicated by the publication of the so-called Zimmermann note. This secret dispatch was sent to the Mexicans by the German foreign office and offered Mexico an alliance on the basis of the restoration of the "lost territory" of Texas, New Mexico, and Arizona.) Those hostile to Germany, therefore, pressed for the passage of preparedness measures; and Wilson, who was beginning to read the future in a somewhat similar fashion, fell in with these plans. In August, 1916, he signed an army appropriation act which called for the setting up of a Council of National Defense; and another act authorizing the expenditure of a half billion dollars for an augmented navy.

Two factors forced the United States into the war, the first psychological and the second military. First, it was hard to claim that World War I was a war for democracy as long as in the company of the allied powers was to be found the absolutist and despotic Imperial Russian Government. But in March, 1917, the Czarist regime was overthrown and the so-called Kerensky government established a ministry representing a coalition of all the democratic forces in Russia. American liberals could now support the Allied cause without reservations.

Second, somewhat earlier in January, 1917, Germany, more and more constricted by the British blockade, decided to resume unrestricted submarine warfare. The Germans knew that this meant war with the United States; but they hoped that, with the withdrawal of the pressure of the Russians on the eastern front, they could succeed in striking a quick knockout blow on land and undersea before America was ready. President Wilson, on February 3, took the inevitable step: he announced to Congress that diplomatic relations between the United States and Germany

had been ended. And when it was discovered—as has been said—that German intrigue in Mexico was seeking to cause turmoil in the Western Hemisphere, events moved toward the inevitable decision.

In March, three American ships, homeward bound, were sunk without warning. On March 21, Wilson called Congress to meet in special session on April 2. On the evening of that day, Wilson asked Congress to declare war. It was

not simply that the German government had violated its pledges; our entry had broader grounds. We were fighting for "the ultimate peace of the world and for the liberation of its peoples, the German people included; for the right of nations great and small and the privilege of men everywhere to choose their way of life and of obedience. The world must be made safe for Democracy." Congress passed a war resolution on April 6.

## 8. WINNING THE WAR AND LOSING THE PEACE

*Mobilization at Home.* The ability with which the United States was able to prepare itself, psychologically and industrially, for the military effort astounded Americans and the whole world. Before hostilities were over, we had inducted into the national service almost three million men, which, with the 750,000 members of the regular army and the National Guard, made a potential fighting force of three and one half million soldiers. A total of five popular loans was floated during the period June, 1917, to April, 1919, and these brought in upwards of 21 billions of dollars. From borrowings and taxes, the United States not only financed its own war expenditures, but it also was able to lend its allies more than 10 billions of dollars. A whole group of wartime agencies was erected to mobilize America's industrial might, among which the following were the most important: the War Industries Board, the Railway Administration, the Emergency Fleet Corporation, the War Trade Board, the Food Administration, and the Fuel Administration. The railroads were taken over by the Federal government; America's foreign trade was centralized in the hands of a governmental authority; and some 50 million acres of new lands were opened to the cultivation of food crops. A Committee on Public Information sought to enlighten Americans and peoples all over the world, as well, about the United States' idealistic motives; while the Attorney

General and the Postmaster General vigorously—and frequently oppressively—engaged in tracking down and punishing dissent.

The speeches and messages of Woodrow Wilson were America's most important weapon in the campaign of psychological warfare waged all over the earth. In his address at Washington on June 14, 1917, Wilson called the war a "People's War." In his message to Congress, on January 8, 1918, he outlined in his famous Fourteen Points, the kind of peace America was striving for: it was to be based on open covenants, the removal of economic barriers between all nations, self-determination, and the formation of a "general association of nations." And in his Congressional message of February 11, 1918, he pledged the United States to a program which was to include "no annexations, no contributions, no punitive damages."

At only one point did American organization for war fail, and this was in connection with control over prices and the checking of inflation. The upshot was that the cost of living climbed steadily. From 1914 through 1918, wholesale prices increased 100 percent; from 1918 into 1920, they went up another 20 percent. From 1914 through 1918, real wages dropped more than 20 percent; but by 1920 they had been almost restored to 1914 levels.

Trade unions failed as far as wage increases were concerned; but organizational drives

met with greater successes. In 1914, the membership of the unions affiliated with the American Federation of Labor was 2,021,000; by 1918, this had increased to 2,726,000; and by 1920, to more than 5,000,000. There were many wartime strikes; but in 1918, due to the erection of machinery for conciliation and to wage increases on railroads and in stockyards and munition plants, the number of industrial disputes fell off sharply. The War Labor Conference Board, set up in 1918, adopted a program which was based upon the recognition of collective bargaining, the eight-hour day, and a living wage for workers everywhere.

*Military Operations.* Despite the continuance of the submarine campaign, America was able to move large amounts of supplies and a great army of men overseas. In the nineteen months of American participation, more than two million men were sent to Europe; a half million were carried across in the first thirteen months and a million and a half in the last six months. General John J. Pershing was named Commander-in-Chief of the American Expeditionary Force and he appeared in Paris to begin the work of preparing an American army for combat in June, 1917. The Allies sought to brigade American troops with the British, French, and Italian divisions; but Pershing was insistent that an independent American army under his own command be established. In August, 1918, Foch, the generalissimo of the Allied forces, yielded, and the First American Army was created. It took over a section of the Western Front and, before the war was over, American troops under their own officers were defending almost a fourth of the whole line.

The final German offensive was begun in March, 1918, and continued through July. In these battles, Americans took part, the most important one being at Château-Thierry. Here, the American stand prevented the Germans from crossing the Marne and continuing on to Paris. Now the Allied armies took the offensive, and from July 18 until the Armis-

tice on November 11, they struck again and again at the weakening German host. In September, more than a half million Americans took part in the battle of the Meuse-Argonne. These attacks broke the back of the German resistance.

The American navy also played its rôle in the war, although its feats were less spectacular. American warships harried the submarines and so well did they succeed that, by 1918, few undersea boats were daring to leave German waters. They also sowed mines, engaged in mine sweeping, reinforced the British blockade, and convoyed the great American transport fleet. Before the war was over, there were stationed in European waters at least 300 American warships.

American casualties were as follows: battle deaths, 48,909; wounded, 237,135; missing in action and prisoners, 7,347. In addition 57,000 men died of disease.

The Germans knew that the war had been lost by the midsummer of 1918; and in October, they began to send out peace feelers. Finally, on November 8, the Kaiser abdicated and on November 11 armistice terms were signed. They were largely based upon Wilson's Fourteen Points.

*The Congressional Elections of 1918.* In October, 1918, Wilson made an appeal to the American people for the election of a Democratic Congress. This was a curious step to take in view of the fact that the Republicans had supported every war measure wholeheartedly. It was an unfortunate one as well, for Wilson's request was spurned by the American electorate. The Republicans captured both houses of Congress; and indeed, it was to be a Republican Foreign Relations Committee in the Senate that was to discuss the new treaty Wilson was to bring home. Wilson was responsible for another unfortunate blunder for, in his creation of the American Peace Commission which was to accompany him to Paris, he failed to include representatives either from the Senate or from the company of outstanding Republicans.

*The Treaty and Its Defeat.* The Peace Conference assembled at Versailles in January, 1919, and by May had prepared a voluminous document containing more than 400 articles and covering in exact detail all kinds of territorial, economic, industrial, and legal arrangements. On June 28, Germany signed, and the war was over. Most important, as far as Americans were concerned, was the incorporation in the treaty of a Covenant calling for the establishment of a League of Nations.

Wilson had gone off to Paris his hopes high; and, despite the fact that the Conference was filled with bickering and many bad compromises were effected, he had failed to lose heart. If there were injustices written into the treaty, the League of Nations would see to it in time that an enduring peace was established throughout the world.

But Wilson had committed errors and these turned out to be tragic. He had refused to treat with the victorious Republicans, or in fact to take them into his councils; he had failed to reckon with the ingrained isolationism of large sections of the American people; and he had shown an incapacity to compromise with the Senate in order to salvage what he could. The result was he lost control; and a small and vindictive company of Senators had their way and spurned the treaty. The United States did not join the League of Nations and our withdrawal into isolationism, political and economic, for the next ten years had as much to do with the depression and the rearming of the world in the thirties as any other single factor. Our unhappy fate during the twenties was that we hung suspended between two worlds: our economy and our influence in world affairs prevented the adoption of a purely nationalist policy; and, on the other hand, we were unwilling to pursue a course based on full international collaboration.

The League Covenant, in addition to setting up an assembly, a council, a permanent secretariat, and a world court, included a

number of provisions for the maintenance of peace. In particular, Article X bound the signatories to protect the territorial integrity and political independence of all members of the League; and Article XVI pledged its members to impose economic penalties, or sanctions, upon those nations which waged war in disregard of their promises to submit their disputes for arbitration or judicial settlement. The council, in such cases, might recommend to members of the League the adoption of military measures against the aggressor nations.

President Wilson ran into difficulties virtually from the beginning. The treaty, including the League Covenant, was placed before the Senate in July; and there followed a long and sometimes confused debate in which Congress, the press, and the public generally participated. The opposition to the treaty and the League was led by Senator Lodge of Massachusetts, who took his stand on the necessity of including in any settlement certain specific reservations: (1) The United States could not accept the obligations placed upon the members of the League under Article X. (2) The United States should reserve specifically the right of withdrawal from the League. (3) The United States should reserve specifically the power to decide what questions came within its domestic jurisdiction, and therefore lay outside of the competence of the League. (4) The United States ought to decline to submit for inquiry and arbitration any questions affecting the Monroe Doctrine. These were the stated reasons for the rejection of Wilson's handiwork; beneath the surface, however, ran powerful and bitter currents of partisanship and personal animosities. There can be no doubt that such considerations were at the basis of Lodge's ill-natured attacks on Wilson.

The discussion ebbed and flowed, with both sides refusing to find means of accommodation. Finally in September, Wilson decided to take the issue directly to the people and started out on a speaking tour of the

Middle West and Far West; but he collapsed at Pueblo, Colorado, and suffered a paralytic stroke. He was never again a well man. Meanwhile in September, Lodge as chairman of the Senate Committee on Foreign Relations, had reported out the treaty with a large number of amendments to it and the four reservations enumerated above to the League Covenant. The Senate rejected the amendments; and then it proceeded to draw up fourteen reservations, once again under Lodge's leadership. Here Wilson erred again, for he ordered the administration supporters to insist upon all or nothing, the treaty without the Lodge reservations—or defeat. Defeat it was. On November 19, two votes were taken: one on the treaty with reservations, which was lost; and the second, on the treaty without the reservations, which was also lost. The special session was then terminated.

Once more Wilson tried and this was the last time. In March, 1920, after five weeks

of debate, the Senate again voted. For the treaty with reservations the vote was 49; against the treaty, 35. Because the necessary two thirds was lacking, the resolution was defeated. The United States did not sign the treaty; was out of the League; and had washed its hands of all those special and general perplexities that were to trouble Europe in the following ten years. It is hard to assess culpability. Was it Wilson's fault? Was it Lodge's fault? Or was it the indifference of the American people who were failing to realize that America no longer could live alone?

In July, 1921, with President Harding now in the White House, a joint resolution was passed by both houses of Congress which declared simply that the war with Germany was over. And thus ended the New Freedom. And so also failed that crusade to make the world safe for democracy for which Woodrow Wilson had taken the United States into World War I.



# THE AMERICAN MIND

## THORSTEIN VEBLEN

THORSTEIN VEBLEN (1857-1929) was born into a Norwegian immigrant's household, reared on the Minnesota frontier, and educated at a denominational college whose creed he did not share. Philosophy was his first interest as a student; but, after receiving his doctorate in 1884, he left that field for the study of economics as he became convinced that the mass habits of thought and behavior, which constitute "cultures," are shaped by men's methods of earning a living.

It was the economist's province to explain the culture in which he functioned, Veblen argued, but academic economics had failed to do so because economists asked the wrong questions. They justified instead of inquiring. They sought the "what" rather than the "how come" of institutions; and they based their reasoning on an antiquated view of human nature. All this led them to accept as "given" the very institutions that required explanation.

The marginal utility economists, for example, completely ignored the institutional framework within which individual man had his being and made his choices. Thus, John Bates Clark, the American leader of the school, was obviously engaging in the impossible when he sought to explain the theoretical dynamics of a society from which he had carefully abstracted all the elements necessary to its dynamic character. Similarly, economists studying a money economy disregarded money itself and denied that it was the end of any entrepreneur's desire, though they had the facts of the market place to prove them in error.

If economists and their supporters in sociology proceeded on incorrect premises concerning the nature of current activities, there

was no reason to regard them as more accurate concerning the pattern of social evolution in the past. Veblen undertook to sketch his own view of that evolution, starting with the assumption that man is endowed with instincts, the result of primitive "tropismatic drives," which use intelligence as a means of achieving their ends. In time, instincts give rise to institutions which are habits of thought and action widely current in a social group. Such institutions then proceed to shape the individual almost as effectively as the fundamental instincts which they express. For the economic process, "the parental bent," "the instinct of workmanship" and "idle curiosity" are the serviceable tendencies, while the "predatory drives" and a contaminating "metaphysics" hamper output and make for the pursuit of self-interest rather than concern for the welfare of the group.

Western European man, Veblen argues, has moved from the simplicities of a Neolithic savagery dominated by "the parental bent" and "the instinct of workmanship" through the predatory barbarian stage (which established "invidious distinctions" derived from the possession of private property based on fraud and violence), into the handicraft economy (where the "instinct for workmanship" expressed itself in the concepts of natural rights and natural law), and thence into the modern world. The modern world is the result of the technological and economic devices that made up the Industrial Revolution as influenced by the strong residue of barbarian culture in the upper or "leisure" class. Modern production is controlled by those who own, not those who make, and their aim is gain, not productivity. From this fact stems the essential conflict between the interest of

the community, which wants goods, and the businessman, who wants profit. Within the economic process, the conflict lies between technologist and financier, between "industrial and pecuniary employments."

In the *Theory of Business Enterprise* (1904), Veblen expounds the manner in which business has taken over the industrial process and transmuted the production of goods into the dealing in those symbols which are the evidences of corporate ownership. Property itself has become utterly attenuated, but the more intangible it becomes the more real is its control over every aspect of modern life. In

the vein of the great comic writers, Veblen thus continued to probe and analyze; but because he used an involved vocabulary and made irony his main tool, few among his generation felt his stings. America was still so certain of itself and so confident of its destiny that Veblen's warning that even the cherished institutions of our middle-class culture were not permanent could be disregarded. But a later generation of Americans was to rediscover Veblen and read him closely.

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## *The Limitations of Marginal Utility*

BY THORSTEIN VEBLEN

THE LIMITATIONS of the marginal-utility economics are sharp and characteristic. It is from first to last a doctrine of value, and in point of form and method it is a theory of valuation. The whole system, therefore, lies within the theoretical field of distribution, and it has but a secondary bearing on any other economic phenomena than those of distribution—the term being taken in its accepted sense of pecuniary distribution, or distribution in point of ownership. Now and again an attempt is made to extend the use of the principle of marginal utility beyond this range, so as to apply it to questions of production, but hitherto without sensible effect, and necessarily so. . . .

In all this the marginal-utility school is substantially at one with the classical economics of the nineteenth century, the difference between the two being that the former is confined within narrower limits and sticks more consistently to its teleological premises. Both are teleological, and neither can consistently admit arguments from cause to effect in the formulation of their main articles of theory. Neither can deal theoretically with phenomena of change, but at the most only with rational adjustment to change which may be supposed to have supervened.

To the modern scientist the phenomena of growth and change are the most obtrusive and most consequential facts observable in economic life. For an understanding of modern economic life the technological advance of the past two centuries—e.g., the growth of the industrial arts—is of the first importance; but marginal-utility theory does not bear on this matter, nor does this

matter bear on marginal-utility theory. As a means of theoretically accounting for this technological movement in the past or in the present, or even as a means of formally, technically stating it as an element in the current economic situation, that doctrine and all its works are altogether idle. The like is true for the sequence of change that is going forward in the pecuniary relations of modern life; the hedonistic postulate and its propositions of differential utility neither have served nor can serve an inquiry into these phenomena of growth, although the whole body of marginal-utility economics lies within the range of these pecuniary phenomena. . . .

It is characteristic of the school that wherever an element of the cultural fabric, an institution or any institutional phenomenon, is involved in the facts with which the theory is occupied, such institutional facts are taken for granted, denied, or explained away. If it is a question of price, there is offered an explanation of how exchanges may take place with such effect as to leave money and price out of the account. If it is a question of credit, the effect of credit extension on business traffic is left on one side and there is an explanation of how the borrower and lender co-operate to smooth out their respective income streams of consumable goods or sensations of consumption. The failure of the school in this respect is consistent and comprehensive. . . .

The infirmity of this theoretical scheme lies in its postulates, which confine the inquiry to generalizations of the teleological or "deductive" order. These postulates, together with the point of view

and logical method that follow from them, the marginal-utility school shares with other economists of the classical line—for this school is but a branch or derivative of the English classical economists of the nineteenth century. The substantial difference between this school and the generality of classical economists lies mainly in the fact that in the marginal-utility economics the common postulates are more consistently adhered to at the same time that they are more neatly defined and their limitations are more adequately realized. Both the classical school in general and its specialized variant, the marginal-utility school, in particular, take as their common point of departure the traditional psychology of the early nineteenth-century hedonists, which is accepted as a matter of course or of common notoriety and is held quite uncritically. The central and well-defined tenet so held is that of the hedonistic calculus. Under the guidance of this tenet and of the other psychological conceptions associated and consonant with it, human conduct is conceived of and interpreted as a rational response to the exigencies of the situation in which mankind is placed; as regards economic conduct it is such a rational and unprejudiced response to the stimulus of anticipated pleasure and pain—being, typically and in the main, a response to the promptings of anticipated pleasure, for the hedonists of the nineteenth century and of the marginal-utility school are in the main of an optimistic temper.<sup>1</sup> Mankind is, on the whole and normally, (conceived to be) clear-sighted and far-sighted in its appreciation of future sensuous gains and losses, although there may be some (inconsiderable) difference between men in this respect. Men's activities differ, therefore, (inconsiderably) in respect of the alertness of the response and the nicety of adjustment of irksome pain-cost to apprehended future sensuous gain; but, on the whole, no other ground or line or guidance of conduct than this rationalistic calculus falls properly within the cognizance of the economic hedonists. Such a theory can take account

<sup>1</sup> The conduct of mankind differs from that of the brutes in being determined by anticipated sensations of pleasure and pain, instead of actual sensations. Hereby, in so far, human conduct is taken out of the sequence of cause and effect and falls instead under the rule of sufficient reason. By virtue of this rational faculty in man the connexion between stimulus and response is teleological instead of causal.

The reason for assigning the first and decisive place to pleasure, rather than to pain, in the determination of human conduct, appears to be the (tacit) acceptance of that optimistic doctrine of a beneficent order of nature which the nineteenth century inherited from the eighteenth.

of conduct only in so far as it is rational conduct, guided by deliberate and exhaustively intelligent choice—wise adaptation to the demands of the main chance.

The external circumstances which condition conduct are variable, of course, and so they will have a varying effect upon conduct; but their variation is, in effect, construed to be of such a character only as to vary the degree of strain to which the human agent is subject by contact with these external circumstances. The cultural elements involved in the theoretical scheme, elements that are of the nature of institutions, human relations governed by use and wont in whatever kind and connexion, are not subject to inquiry but are taken for granted as pre-existing in a finished, typical form and as making up a normal and definitive economic situation, under which and in terms of which human intercourse is necessarily carried on. This cultural situation comprises a few large and simple articles of institutional furniture, together with their logical implications or corollaries; but it includes nothing of the consequences or effects caused by these institutional elements. The cultural elements so tacitly postulated as immutable conditions precedent to economic life are ownership and free contract, together with such other features of the scheme of natural rights as are implied in the exercise of these. These cultural products are, for the purpose of the theory, conceived to be given *a priori* in unmitigated force. They are part of the nature of things. . . .

Now, it happens that the relation of sufficient reason enters very substantially into human conduct. It is this element of discriminating forethought that distinguishes human conduct from brute behaviour. And since the economist's subject of inquiry is this human conduct, that relation necessarily comes in for a large share of his attention in any theoretical formulation of economic phenomena, whether hedonistic or otherwise. But while modern science at large has made the causal relation the sole ultimate ground of theoretical formulation; and while the other sciences that deal with human life admit the relation of sufficient reason as a proximate, supplementary, or intermediate ground, subsidiary, and subservient to the argument from cause to effect; economics has had the misfortune—as seen from the scientific point of view—to let the former supplant the latter. . . . It deals with this conduct only in so far as it may be construed in rationalistic, teleological terms of calculation and choice. But it is at the same time no less true that human conduct, economic or otherwise, is subject to the sequence of cause and effect, by force of such elements as habituation

and conventional requirements. But facts of this order, which are to modern science of graver interest than the teleological details of conduct, necessarily fall outside the attention of the hedonistic economist, because they cannot be construed in terms of sufficient reason, such as his postulates demand, or be fitted into a scheme of teleological doctrines. . . .

In so far as modern science inquires into the phenomena of life, whether inanimate, brute, or human, it is occupied about questions of genesis and cumulative change, and it converges upon a theoretical formulation in the shape of a life-history drawn in causal terms. In so far as it is a science in the current sense of the term, any science, such as economics, which has to do with human conduct, becomes a genetic inquiry into the human scheme of life; and where, as in economics, the subject of inquiry is the conduct of man in his dealings with the material means of life, the science is necessarily an inquiry into the life-history of material civilization, on a more or less extended or restricted plan. Not that the economist's inquiry isolates material civilization from all other phases and bearings of human culture, and so studies the motions of an abstractly conceived "economic man." On the contrary, no theoretical inquiry into this material civilization that shall be at all adequate to any scientific purpose can be carried out without taking this material civilization in its causal, that is to say, its genetic, relations to other phases and bearings of the cultural complex; without studying it as it is wrought upon by other lines of cultural growth and as working its effects in these other lines. But in so far as the inquiry is economic science, specifically, the attention will converge upon the scheme of material life and will take in other phases of civilization only in their correlation with the scheme of material civilization.

Like all human culture, this material civilization is a scheme of institutions—institutional fabric and institutional growth. But institutions are an outgrowth of habit. The growth of culture is a cumulative sequence of habituation, and the ways and means of it are the habitual response of human nature to exigencies that vary incontinently, cumulatively, but with something of a consistent sequence in the cumulative variations that so go forward—incontinently, because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before; consistently, because the underlying

traits of human nature (propensities, aptitudes, and what not) by force of which the response takes place, and on the ground of which the habituation takes effect, remain substantially unchanged.

Evidently an economic inquiry which occupies itself exclusively with the movements of this consistent, elemental human nature under given, stable institutional conditions—such as is the case with the current hedonistic economics—can reach statical results alone; since it makes abstraction from those elements that make for anything but a statical result. On the other hand an adequate theory of economic conduct, even for statical purposes, cannot be drawn in terms of the individual simply—as is the case in the marginal-utility economics—because it cannot be drawn in terms of the underlying traits of human nature simply; since the response that goes to make up human conduct takes place under institutional norms and only under stimuli that have an institutional bearing; for the situation that provokes and inhibits action in any given case is itself in great part of institutional, cultural derivation. Then, too, the phenomena of human life occur only as phenomena of the life of a group or community: only under stimuli due to contact with the group and only under the (habitual) control exercised by canons of conduct imposed by the group's scheme of life. Not only is the individual's conduct hedged about and directed by his habitual relations to his fellows in the group, but these relations, being of an institutional character, vary as the institutional scheme varies. The wants and desires, the end and aim, the ways and means, the amplitude and drift of the individual's conduct are functions of an institutional variable that is of a highly complex and wholly unstable character.

The growth and mutations of the institutional fabric are an outcome of the conduct of the individual members of the group, since it is out of the experience of the individuals, through the habituation of individuals, that institutions arise; and it is in this same experience that these institutions act to direct and define the aims and end of conduct. It is, of course, on individuals that the system of institutions imposes those conventional standards, ideals, and canons of conduct that make up the community's scheme of life. Scientific inquiry in this field, therefore, must deal with individual conduct and must formulate its theoretical results in terms of individual conduct. But such an inquiry can serve the purposes of a genetic theory only if and in so far as this individual conduct is attended to in those respects in which it counts toward habituation, and so toward change (or

stability) of the institutional fabric, on the one hand, and in those respects in which it is prompted and guided by the received institutional conceptions and ideals on the other hand. The postulates of marginal-utility, and the hedonistic preconceptions generally, fail at this point in that they confine the attention to such bearings of economic conduct as are conceived not to be conditioned by habitual standards and ideals and to have no effect in the way of habituation. They disregard or abstract from the causal sequence of propensity and habituation in economic life and exclude from theoretical inquiry all such interest in the facts of cultural growth, in order to attend to those features of the case that are conceived to be idle in this respect. All such facts of institutional force and growth are put on one side as not being germane to pure theory; they are to be taken account of, if at all, by afterthought, by a more or less vague and general allowance for inconsequential disturbances due to occasional human infirmity. Certain institutional phenomena, it is true, are comprised among the premises of the hedonists, as has been noted above; but they are included as postulates *a priori*. So the institution of ownership is taken into the inquiry not as a factor of growth or an element subject to change, but as one of the primordial and immutable facts of the order of nature, underlying the hedonistic calculus. Property, ownership, is presumed as the basis of hedonistic discrimination and it is conceived to be given in its finished (nineteenth-century) scope and force. There is no thought either of a conceivable growth of this definitive nineteenth-century institution out of a cruder past or of any conceivable cumulative change in the scope and force of ownership in the present or future. Nor is it conceived that the presence of this institutional element in men's economic relations in any degree affects or disguises the hedonistic calculus, or that its pecuniary conceptions and standards in any degree standardize, colour, mitigate, or divert the hedonistic calculator from the direct and unhampered quest of the net sensuous gain. . . .

The modern economic situation is a business situation, in that economic activity of all kinds is commonly controlled by business considerations. The exigencies of modern life are commonly pecuniary exigencies. That is to say, they are exigencies of the ownership of property. Productive efficiency and distributive gain are both rated in terms of price. Business considerations are considerations of price, and pecuniary exigencies of whatever kind in the modern communities are exigencies of price. The current economic situation is a price system. Economic institutions in the

modern civilized scheme of life are (prevailing) institutions of the price system. The accountancy to which all phenomena of modern economic life are amenable is an accountancy in terms of price; and by the current convention there is no other recognized scheme of accountancy, no other rating, either in law or in fact, to which the facts of modern life are held amenable. Indeed, so great and pervading a force has this habit (institution) of pecuniary accountancy become that it extends, often as a matter of course, to many facts which properly have no pecuniary bearing and no pecuniary magnitude, as, e.g., works of art, science, scholarship, and religion. More or less freely and fully, the price system dominates the current common-sense in its appreciation and rating of these non-pecuniary ramifications of modern culture; and this in spite of the fact that, on reflection, all men of normal intelligence will freely admit that these matters lie outside the scope of pecuniary valuation.

Current popular taste and the popular sense of merit and demerit are notoriously affected in some degree by pecuniary considerations. It is a matter of common notoriety, not to be denied or explained away, that pecuniary ("commercial") tests and standards are habitually made use of outside of commercial interests proper. Precious stones, it is admitted, even by hedonistic economists, are more esteemed than they would be if they were more plentiful and cheaper. A wealthy person meets with more consideration and enjoys a larger measure of good repute than would fall to the share of the same person with the same habit of mind and body and the same record of good and evil deeds if he were poorer. It may well be that this current "commercialization" of taste and appreciation has been overstated by superficial and hasty critics of contemporary life, but it will not be denied that there is a modicum of truth in the allegation. Whatever substance it has, much or little, is due to carrying over into other fields of interest the habitual conceptions induced by dealing with and thinking of pecuniary matters. These "commercial" conceptions of merit and demerit are derived from business experience. The pecuniary tests and standards so applied outside of business transactions and relations are not reducible to sensuous terms of pleasure and pain. . . .

It is the institution of property that gives rise to these habitual grounds of discrimination, and in modern times, when wealth is counted in terms of money, it is in terms of money value that these tests and standards of pecuniary excellence are applied. This much will be admitted. Pecuniary institutions induce pecuniary habits of thought

which affect men's discrimination outside of pecuniary matters; but the hedonistic interpretation alleges that such pecuniary habits of thought do not affect men's discrimination in pecuniary matters. Although the institutional scheme of the price system visibly dominates the modern community's thinking in matters that lie outside the economic interest, the hedonistic economists insist, in effect, that this institutional scheme must be accounted of no effect within that range of activity to which it owes its genesis, growth, and persistence. The phenomena of business, which are peculiarly and uniformly phenomena of price, are in the scheme of the hedonistic theory reduced to non-pecuniary hedonistic terms and the theoretical formulation is carried out as if pecuniary conceptions had no force within the traffic in which such conceptions originate. It is admitted that preoccupation with commercial interests has "commercialized" the rest of modern life, but the "commercialization" of commerce is not admitted. Business transactions and computations in pecuniary terms, such as loans, discounts, and capitalization, are without hesitation or abatement converted into terms of hedonistic utility, and conversely. . . .

The point may perhaps be made clearer. Money and the habitual resort to its use are conceived to be simply the ways and means by which consumable goods are acquired, and therefore simply a convenient method by which to procure the pleasurable sensations of consumption; these latter being in hedonistic theory the sole and overt end of all economic endeavour. Money values have therefore no other significance than that of purchasing power over consumable goods, and money is simply an expedient of computation. Investment, credit extensions, loans of all kinds and degrees, with payment of interest and the rest, are likewise taken simply as intermediate steps between the pleasurable sensations of consumption and the efforts induced by the anticipation of these sensations, other bearings of the case being disregarded. The balance being kept in terms of the hedonistic consumption, no disturbance arises in this pecuniary traffic so long as the extreme terms of this extended hedonistic equation—pain-cost and pleasure-gain—are not altered, what lies between these extreme terms by being merely algebraic notation employed for convenience of accountancy. But such is not the run of the facts in modern business. Variations of capitalization, e.g., occur without its being practicable to refer them to visibly equivalent variations either in the state of the industrial arts or in the sensations of consumption. Credit extensions tend to inflation of credit, rising prices, over-stocking of markets, etc., likewise

without a visible or securely traceable correlation in the state of the industrial arts or in the pleasures of consumption; that is to say, without a visible basis in those material elements to which the hedonistic theory reduces all economic phenomena. Hence the run of the facts, in so far, must be thrown out of the theoretical formulation. The hedonistically presumed final purchase of consumable goods is habitually not contemplated in the pursuit of business enterprise. Business men habitually aspire to accumulate wealth in excess of the limits of practicable consumption, and the wealth so accumulated is not intended to be converted by a final transaction of purchase into consumable goods or sensations of consumption. Such commonplace facts as these, together with the endless web of business detail of a like pecuniary character, do not in hedonistic theory raise a question as to how these conventional aims, ideals, aspirations, and standards have come into force or how they affect the scheme of life in business or outside of it; they do not raise those questions because such questions cannot be answered in the terms which the hedonistic economists are content to use, or, indeed, which their premises permit them to use. The question which arises is how to explain the facts away: how theoretically to neutralize them so that they will not have to appear in the theory, which can then be drawn in direct and unambiguous terms of rational hedonistic calculation. They are explained away as being aberrations due to oversight or lapse of memory on the part of business men, or to some failure of logic or insight. Or they are construed and interpreted into the rationalistic terms of the hedonistic calculus by resort to an ambiguous use of the hedonistic concepts. So that the whole "money economy," with all the machinery of credit and the rest, disappears in a tissue of metaphors to reappear theoretically expurgated, sterilized, and simplified into a "refined system of barter," culminating in a net aggregate maximum of pleasurable sensations of consumption.

But since it is in just this unhedonistic, unrationalistic pecuniary traffic that the tissue of business life consists; since it is this peculiar conventionalism of aims and standards that differentiates the life of the modern business community from any conceivable earlier or cruder phase of economic life; since it is in this tissue of pecuniary intercourse and pecuniary concepts, ideals, expedients, and aspirations that the conjunctures of business life arise and run their course of felicity and devastation; since it is here that those institutional changes take place which distinguish one

phase or era of the business community's life from any other; since the growth and change of these habitual, conventional elements make the growth and character of any business era or business community; any theory of business which sets these elements aside or explains them away misses the main facts which it has gone out to seek. Life and its conjunctures and institutions being of this complexion, however much that state of the case may be deprecated, a theoretical account of the phenomena of this life must be drawn in these terms in which the phenomena occur. It is not simply that the hedonistic interpretation of modern eco-

nomie phenomena is inadequate or misleading; if the phenomena are subjected to the hedonistic interpretation in the theoretical analysis they disappear from the theory; and if they would bear the interpretation in fact they would disappear in fact. If, in fact, all the conventional relations and principles of pecuniary intercourse were subject to such a perpetual rationalized, calculating revision, so that each article of usage, appreciation, or procedure must approve itself *de novo* on hedonistic grounds of sensuous expediency to all concerned at every move, it is not conceivable that the institutional fabric would last over night.

## JOHN DEWEY

THE GREAT FIGURES in modern American philosophy are Charles Saunders Peirce, William James, and John Dewey. Hence the peculiar interest of Dewey's exposition of James to a French audience, in an article on the development of American pragmatism first published in the *Revue de la Métaphysique et de Morale* of October, 1922. The essay itself not only explains James but also illustrates several of Dewey's characteristics. To define pragmatism, he tells of its genesis; to describe it, he sketches its newer aspects in the instrumentalism he himself had developed; to defend it, Dewey denies that pragmatism is a glorification of mere energy and therefore reflects only America's concern with moneymaking. The future as well as the past can give meaning to life, Dewey notes; and if the exercise of the intellect is a genuine human delight, it should be accessible to more than its present handful of votaries. And this is Dewey's particular contribution: philosophy is not a mode of observation nor a mere "universe of discourse"; it is a guide to action. For intelligence is a means of dealing with reality and philosophy is intelligence rounded to completion.

Much in John Dewey's background helps explain this concept. He was born in Vermont in 1859 and grew up in an environment that held few intellectual challenges. Evolution and the Positivists awakened Dewey's interest in the interaction between social conditions and the formulation of scientific and philosophic

concepts, and the influence of William James altered the direction of Dewey's psychological approach to philosophy. Experience at the University of Michigan and in the experimental school at Chicago drew Dewey to greater concern with the learning process. Education should improve the mutual adjustment of organism and environment, but the teaching methods practiced at the turn of the century violated the laws of normal growth.

In an effort to harmonize psychology and educational methods, Dewey began work at the "Laboratory School" in 1894 and it was a dispute over the administration of the school which finally separated him from the University of Chicago. That did not occur before his lectures to raise money for the school had produced Dewey's most influential book, *The School and Society*.

In 1905, Dewey came to Columbia. New York gave a new turn to his thinking, by pointing up the conflict between democracy and monopoly. If intelligence was made up of more than invisible spectacles distorting the vision of actuality, it must contribute to fruitful action. Hence, Dewey's later work struck at the conventional approach to philosophy that set knowledge above action and formulation above practice. Dewey, on the contrary, insisted that man's beliefs about his world must be integrated with his beliefs about right conduct; ethical systems which were not rooted in the facts of science were irrelevant.



Foremost among the beliefs requiring adjustment were those derived from isolating the cognitive experience and exalting it above the other experiences of man. That isolation stemmed from a prescientific social structure and a psychology which had formulated the absurdity of a discrete "individual" who was the passive recipient of a ready-made experience instead of himself a determining element in that experience. Exalting thought above

other modes of experience had made philosophy a variety of self-indulgence instead of a guide to life. As Dewey sees it, the object of pragmatism is to restore intelligence to its proper function, lighting the road to action.

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## *The Development of American Pragmatism*

BY JOHN DEWEY

... THE ESSAY in which Peirce developed his theory bears the title: *How to make our Ideas Clear*. There is a remarkable similarity here to Kant's doctrine in the efforts which he made to interpret the universality of concepts in the domain of experience in the same way in which Kant established the law of practical reason in the domain of the *a priori*. "The rational meaning of every proposition lies in the future. . . . But of the myriads of forms into which a proposition may be translated, what is that one which is to be called its very meaning? It is, according to the pragmatist, that form in which the proposition becomes applicable to human conduct, not in these or those special circumstances, nor when one entertains this or that special design, but that form which is most directly applicable to self-control under every situation, and to every purpose." So also, "the pragmatist does not make the *summum bonum* to consist in action, but makes it to consist in that process of evolution whereby the existent comes more and more to embody generals . . ."—in other words—the process whereby the existent becomes, with the aid of action, a body of rational tendencies or of habits generalized as much as possible. These statements of Peirce are quite conclusive with respect to two errors which are commonly committed in regard to the ideas of the founder of pragmatism. It is often said of pragmatism that it makes action the end of life. It is also said of pragmatism that it subordinates thought and rational activity to particular ends of interest and profit. It is true that the theory according to Peirce's conception implies essentially a certain relation to action, to human conduct. But the rôle of action is that of an intermediary. In order to be able to attribute a meaning to concepts, one must be able to apply them to existence.

Now it is by means of action that this application is made possible. And the modification of existence which results from this application constitutes the true meaning of concepts.

Pragmatism is, therefore, far from being that glorification of action for its own sake which is regarded as the peculiar characteristic of American life. . . . This theory was American in its origin in so far as it insisted on the necessity of human conduct and the fulfillment of some aim in order to clarify thought. But at the same time, it disapproves of those aspects of American life which make action an end in itself, and which conceive ends too narrowly and too practically. In considering a system of philosophy in its relation to national factors it is necessary to keep in mind not only the aspects of life which are incorporated in the system, but also the aspects against which the system is a protest. There never was a philosopher who has merited the name for the simple reason that he glorified the tendencies and characteristics of his social environment; just as it is also true that there never has been a philosopher who has not seized upon certain aspects of the life of his time and idealized them.

The work commenced by Peirce was continued by William James. In one sense James narrowed the application of Peirce's pragmatic method, but at the same time he extended it. The articles which Peirce wrote in 1878 commanded almost no attention from philosophical circles, which were then under the dominating influence of the neo-kantian idealism of Green, of Caird, and of the Oxford School, excepting those circles in which the Scottish philosophy of common sense maintained its supremacy. In 1898 James inaugurated the new pragmatic movement in an address entitled, "*Philosophical Conceptions and Practical*



*Results*," later reprinted in the volume, "*Collected Essays and Reviews*." Even in this early study one can easily notice the presence of those two tendencies to restrict and at the same time to extend early pragmatism. . . .

William James alluded to the development which he gave to Peirce's expression of the principle. In one sense one can say that he enlarged the bearing of the principle by the substitution of particular consequences for the general rule or method applicable to future experience. But in another sense this substitution limited the application of the principle since it destroyed the importance attached by Peirce to the greatest possible application of the rule, or the habit of conduct—its extension to universality. That is to say, William James was much more of a nominalist than Peirce.

One can notice an extension of pragmatism in the above passage. James there alludes to the use of a method of determining the meaning of truth. Since truth is a term and has consequently a meaning, this extension is a legitimate application of pragmatic method. But it should be remarked that here this method serves only to make clear the meaning of the term, and has nothing to do with the truth of a particular judgment. The principal reason which led James to give a new color to pragmatic method was that he was preoccupied with applying the method to determine the meaning of philosophical problems and questions and that moreover, he chose to submit to examination philosophical notions of a theological or religious nature. He wished to establish a criterion which would enable one to determine whether a given philosophical question has an authentic and vital meaning or whether, on the contrary, it was trivial and purely verbal; and in the former case, what interests were at stake, when one accepts and affirms one or the other of two theses in dispute. Peirce was above all a logician; whereas James was an educator and wished to force the general public to realize that certain problems, certain philosophical debates have a real importance for mankind, because the beliefs which they bring into play lead to very different modes of conduct. If this important distinction is not grasped, it is impossible to understand the majority of the ambiguities and errors which belong to the later period in the pragmatic movement. . . .

William James accomplished a new advance in Pragmatism by his theory of the will to believe, or as he himself later called it, the right to believe. The discovery of the fundamental consequences of one or another belief has without fail a certain influence on that belief itself. If a man cherished

novelty, risk, opportunity and a variegated esthetic reality, he will certainly reject any belief in Monism, when he clearly perceives the import of this system. But if, from the very start, he is attracted by esthetic harmony, classic proportions, fixity even to the extent of absolute security and logical coherence, it is quite natural that he should put faith in Monism. Thus William James took into account those motives of instinctive sympathy which play a greater rôle in our choice of a philosophic system than formal reasonings; and he thought that we would be rendering a service to the cause of philosophical sincerity if we would openly recognize the motives which inspire us. He also maintained the thesis that the greater part of philosophic problems and especially those which touch on religious fields are of such a nature that they are not susceptible of decisive evidence one way or the other. Consequently he claimed the right of a man to choose his beliefs not only in the presence of proofs or conclusive facts, but also in the absence of all evidence of this nature, and above all when he is forced to choose between one meaning or another, or when by refusing to choose, his refusal is itself equivalent to a choice. The theory of the will to believe gives rise to misunderstandings and even to ridicule; and therefore it is necessary to understand clearly in what way James used it. We are always obliged to act in any case; our actions and with them their consequences actually change according to the beliefs which we have chosen. Moreover it may be that, in order to discover the proofs which will ultimately be the intellectual justification of certain beliefs—the belief in freedom, for example, or the belief in God—it is necessary to begin to act in accordance with this belief.

In his lectures on Pragmatism, and in his volume of essays bearing the title "*The Meaning of Truth*," which appeared in 1909, James extended the use of the pragmatic method to the problem of the nature of truth. So far we have considered the pragmatic method as an instrument in determining the meaning of words and the vital importance of philosophic beliefs. Now and then we have made allusion to the future consequences which are implied. James showed, among other things, that in certain philosophic conceptions, the affirmation of certain beliefs could be justified by means of the nature of their consequences, or by the differences which these beliefs make in existence. But then why not push the argument to the point of maintaining that the meaning of truth in general is determined by its consequences? We must not forget here that James was an empiricist before he was a pragmatist, and repeatedly stated

that pragmatism is merely empiricism pushed to its legitimate conclusions. From a general point of view, the pragmatic attitude consists in "looking away from first things, principles, 'categories,' supposed necessities; and of looking towards last things, fruits, consequences, facts." It is only one step further to apply the pragmatic method to the problem of truth. . . . What direction therefore, must an empirical philosopher take who wishes to arrive at a definition of truth by means of an empirical method? He must, if he wants to apply this method, and without bringing in for the present the pragmatic formula, first find particular cases from which he then generalizes. It is therefore in submitting conceptions to the control of experience, in the process of verifying them, that one finds examples of what is called truth. Therefore the philosopher who applies this empirical method, without the least prejudice in favor of pragmatic doctrine, can be brought to conclude that truth "means" verification, or if one prefers, that verification either actual or possible, is the definition of truth. . . .

Pragmatism, thus, presents itself as an extension of historical empiricism with this fundamental difference, that it does not insist upon antecedent phenomena but upon consequent phenomena; not upon the precedents but upon the possibilities of action, and this change in point of view is almost revolutionary in its consequences. An empiricism which is content with repeating facts already past has no place for possibility and for liberty. It cannot find room for general conceptions or ideas, at least no more than to consider them as summaries or records. But when we take the point of view of pragmatism we see that general ideas have a very different rôle to play than that of reporting and registering past experiences. They are the bases for organizing future observations and experiences. Whereas, for empiricism, in a world already constructed and determined, reason or general thought has no other meaning than that of summing up particular cases, in a world where the future is not a mere word, where theories, general notions, rational ideas have consequences for action, reason necessarily has a constructive function. Nevertheless the conceptions of reasoning have only a secondary interest in comparison with the reality of facts, since they must be confronted with concrete observations.<sup>1</sup>

Pragmatism thus has a metaphysical implication.

<sup>1</sup> William James said in a happy metaphor, that they must be "cashed in," by producing specific consequences. This expression means that they must be able to become concrete facts. But for those who are not familiar with American idioms, James' formula was

The doctrine of the value of consequences leads us to take the future into consideration. And this taking into consideration of the future takes us to the conception of a universe whose evolution is not finished, of a universe which is still, in James' term, "in the making," "in the process of becoming," of a universe up to a certain point still plastic.

Consequently reason, or thought, in its more general sense, has a real, though limited function, a creative, constructive function. If we form general ideas and if we put them in action, consequences are produced which could not be produced otherwise. Under these conditions the world will be different from what it would have been if thought had not intervened. This consideration confirms the human and moral importance of thought and of its reflective operation in experience. It is therefore not true to say that James treated reason, thought and knowledge with contempt, or that he regarded them as mere means of gaining personal or even social profits. For him reason has a creative function, limited because specific, which helps to make the world other than it would have been without it. It makes the world really more reasonable; it gives to it an intrinsic value. One will understand the philosophy of James better if one considers it in its totality as a revision of English empiricism, a revision which replaces the value of past experience, of what is already given, by the future, by that which is mere possibility.

These considerations naturally bring us to the movement called instrumentalism. The survey which we have just made of James' philosophy shows that he regarded conceptions and theories purely as instruments which can serve to constitute future facts in a specific manner. But James devoted himself primarily to the moral aspects of this theory, to the support which it gave to "meliorism" and moral idealism, and to the consequences which followed from it concerning the sentimental value and the bearing of various philosophical systems, particularly to its destructive implications for monistic rationalism and for absolutism in all its forms. He never attempted to develop a complete theory of the forms or "structures" and of the logical operations which are founded on this conception. Instrumentalism is an attempt to constitute a precise logical theory of concepts, of judgments and inferences in their

taken to mean that the consequences themselves of our rational conceptions must be narrowly limited by their pecuniary value. Thus Mr. Bertrand Russell wrote just recently that pragmatism is merely a manifestation of American commercialism.

various forms, by considering primarily how thought functions in the experimental determinations of future consequences. That is to say, that it attempts to establish universally recognized distinctions and rules of logic by deriving them from the reconstructive or mediative function ascribed to reason. It aims to constitute a theory of the general forms of conception and reasoning, and not of this or that particular judgment or concept related to its own content, or to its particular implications. . . .

The psychological tendencies which have exerted an influence on instrumentalism are of a biological rather than a physiological nature. They are closely related to the important movement whose promoter in psychology has been Doctor John Watson and to which he has given the name of Behaviourism. Briefly, the point of departure of this theory is the conception of the brain as an organ for the co-ordination of sense stimuli (to which one should add modifications caused by habit, unconscious memory, or what are called today "conditioned reflexes") for the purpose of effecting appropriate motor responses. On the basis of the theory of organic evolution it is maintained that the analysis of intelligence and of its operations should be compatible with the order of known biological facts, concerning the intermediate position occupied by the central nervous system in making possible responses to the environment adequate to the needs of the living organism. It is particularly interesting to note that in the "Studies in Logical Theory" (1903), which was their first declaration, the instrumentalists recognized how much they owed to William James for having forged the instruments which they used, while at the same time, in the course of the studies, the authors constantly declared their belief in a close union of the "normative" principles of logic and the real processes of thought, in so far as these are determined by an objective or biological psychology and not by an introspective psychology of states of consciousness. But it is curious to note that the "instruments" to which allusion is made, are not the considerations which were of the greatest service to James. They precede his pragmatism and it is in one of the aspects of his "Principles of Psychology" that one must look for them. This important work (1890) really developed two distinct theses.

The one is a re-interpretation of introspective psychology, in which James denies that sensations, images and ideas are discrete and in which he replaces them by a continuous stream which he calls "the stream of consciousness." This conception necessitates a consideration of relations as an

immediate part of the field of consciousness, having the same status as qualities. . . .

The other aspect of his "Principles of Psychology" is of a biological nature. It shows itself in its full force in the criterion which James established for discovering the existence of mind. "The pursuance of future ends and the choice of means for their attainment are thus the mark and criterion of the presence of mentality in a phenomenon." The force of this criterion is plainly shown in the chapter on Attention, and its relation to Interest considered as the force which controls it, and its teleological function of selection and integration; in the chapter on Discrimination and Comparison (Analysis and Abstraction), where he discusses the way in which ends to be attained and the means for attaining them evoke and control intellectual analysis; and in the chapter on Conception, where he shows that a general idea is a mode of signifying particular things and not merely an abstraction from particular cases or a super-empirical function,—that it is a teleological instrument. James then develops this idea in the chapter on reasoning where he says that "the only meaning of essence is teleological, and that classification and conception are purely teleological weapons of mind." . . .

Given the point of view which we have just specified, and the interest attaching to a logical theory of conception and judgment, there results a theory of the following description. The adaptations made by inferior organisms, for example their effective and co-ordinated responses to stimuli, become teleological in man and therefore give occasion to thought. Reflection is an indirect response to the environment, and the element of indirection can itself become great and very complicated. But it has its origin in biological adaptive behaviour and its ultimate function in its cognitive aspect is a prospective control of the conditions of its environment. The function of intelligence is therefore not that of copying the objects of the environment, but rather of taking account of the way in which more effective and more profitable relations with these objects may be established in the future. . . .

Such a summary survey can hardly pretend to be either convincing or suggestive. However, in noting the points of resemblance and difference between this phase of pragmatism and the logic of neo-hegelian idealism, we are bringing out a point of great importance. According to the latter logic, thought constitutes in the last analysis its own object and even the universe. It is possible to affirm the existence of a series of forms of judgment, because our first judgments, which are nearest to

sense, succeed in constituting objects in only a partial and fragmentary fashion, even to the extent of involving in their nature an element of contradiction. There results a dialectic which permits each inferior and partial type of judgment to pass into a more complete form until we finally arrive at the total judgment where the thought which comprehends the entire object or the universe as an organic whole of interrelated mental distinctions. It is evident that this theory magnifies the rôle of thought beyond all proportion. It is an objective and rational idealism which is opposed to and distinct from the subjective and perceptual idealism of Berkeley's school. Instrumentalism, however, assigns a positive function to thought, that of reconstituting the present stage of things instead of merely knowing them. As a consequence, there cannot be intrinsic degrees, or a hierarchy of forms of judgment. Each type has its own end, and its validity is entirely determined by its efficacy in the pursuit of its end. A limited perceptual judgment, adapted to the situation which has given it birth, is as true as is the most complete and significant philosophic or scientific judgment in its place. Logic, therefore, leads to a realistic metaphysics in so far as it accepts facts and events for what they are independently of thought, and to an idealistic metaphysics in so far as it contends that thought gives birth to distinctive acts which modify future facts and events in such a way as to render them more reasonable, that is to say, more adequate to the ends which we propose for ourselves. The ideal element is more accentuated by the inclusion progressively of social factors in human environment over and above natural factors; so that the needs which are fulfilled, the ends which are attained are no longer of a merely biological or particular character, but include also the ends and activities of other members of society.

It is natural that continental thinkers should be interested in American philosophy as it reflects, in a certain sense, American life. Thus it is clear after this rapid survey of the history of pragmatism that American thought merely continues European thought. We have imported our language, our laws, our institutions, our morals, and our religion from Europe, and we have adapted them to the new conditions of our life. The same is true of our ideas. For long years our philosophical thought was merely an echo of European thought. The pragmatic movement which we have traced in the present essay as well as neo-realism, behaviourism, the absolute idealism of Royce, the naturalistic idealism of Santayana, are all attempts at readaptation; but they are not creations *de novo*.

They have their roots in British and European thought. Since these systems are re-adaptations they take into consideration the distinctive traits of the environment of American life. But as has already been said, they are not limited to reproducing what is worn and imperfect in this environment. They do not aim to glorify the energy and the love of action which the new conditions of American life exaggerated. They do not reflect the excessive mercantilism of American life. Without doubt all these traits of the environment have not been without a certain influence on American philosophical thought; our philosophy would not be national or spontaneous if it were not subject to this influence. But the fundamental idea which the movements of which we have just spoken, have attempted to express, is the ideal that action and opportunity justify themselves only to the degree in which they render life more reasonable and increase its value. Instrumentalism maintains in opposition to many contrary tendencies in the American environment, that action should be intelligent and reflective, and that thought should occupy a central position in life. That is the reason for our insistence on the teleological phase of thought and knowledge. If it must be teleological in particular and not merely true in the abstract, that is probably due to the practical element which is found in all the phases of American life. However that may be, what we insist upon above all else is that intelligence be regarded as the only source and sole guarantee of a desirable and happy future. It is beyond doubt that the progressive and unstable character of American life and civilization has facilitated the birth of a philosophy which regards the world as being in continuous formation, where there is still place for indeterminism, for the new and for a real future. But this idea is not exclusively American, although the conditions of American life have aided this idea in becoming self-conscious. It is also true that Americans tend to underestimate the value of tradition and of rationality considered as an achievement of the past. But the world has also given proof of irrationality in the past and this irrationality is incorporated in our beliefs and our institutions. There are bad traditions as there are good ones: it is always important to distinguish. Our neglect of the traditions of the past, with whatever this negligence implies in the way of spiritual impoverishment of our life, has its compensation in the idea that the world is re-commencing and being re-made under our eyes. The future as well as the past can be a source of interest and consolation and give meaning to the present. Pragmatism and instrumental experimentalism bring into promi-

nence the importance of the individual. It is he who is the carrier of creative thought, the author of action, and of its application. Subjectivism is an old story in philosophy; a story which began in Europe and not in America. But American philosophy, in the systems which we have expounded, has given to the subject, to the individual mind, a practical rather than an epistemological function. The individual mind is important because only the individual mind is the organ of modifications in traditions and institutions, the vehicle of experimental creation. One-sided and egoistic individualism in American life has left its imprint in

our thought. For better or for worse, depending on the point of view, it has transformed the esthetic and fixed individualism of the old European culture into an active individualism. But the idea of a society of individuals is not foreign to American thought; it penetrates even our current individualism which is unreflective and brutal. And the individual which American thought idealises is not an individual *per se*, an individual fixed in isolation and set up for himself, but an individual who evolves and develops in a natural and human environment, an individual who can be educated. . . .

# THE AMERICAN SCENE

## THE MUCKRAKERS

THE TECHNIQUE of investigation and exposure, which had its first great popularity in the work of Henry Demarest Lloyd, became almost a commonplace of journalism in the years before the first World War. These factual presentations (although many were luridly told) of some of the more unpleasant features of the American scene were read widely with the result that the age was not only that of the muckraker but also of the successful reformer.

Of the newspapermen who set about putting the portrait of their time into print, few were abler than Lincoln Steffens (1866-1936), who came to New York after his California education had been supplemented by a period in Europe. Steffens became a notable reporter as well as a fortunate operator in the stock-market, and then turned from the dailies to the more unhampered field of the popular magazine. In 1903, *McClure's* began printing his series of articles on the political life of the American city. General opinion had settled into the conviction that corruption in

politics was limited to the larger cities flooded by immigrants; the political life in a city with a population of sound native inhabitants was bound to be pure.

Steffens tested that opinion by observed fact and proved it false. Despite their complex populations, the larger cities were making the most strenuous efforts to escape boss rule. On the other hand, home-owning Philadelphia was the most disheartening spectacle in the nation, for Philadelphia was aware of corruption and acquiesced in it. More disturbing still, Steffens found that dishonesty in politics was only the reflection of dishonesty in business; and this was the force which was threatening the foundations of American morals. The foundations were strong enough to withstand these attacks, said Steffens; the people simply needed education—and then they would find leaders who would reestablish good government in America. In very considerable measure his optimism was justified.

The selection here reprinted is from *The Shame of the Cities* (New York, 1904).

## *The Shame of the Cities*

BY LINCOLN STEFFENS

### INTRODUCTION; AND SOME CONCLUSIONS

THIS IS NOT a book. It is a collection of articles reprinted from *McClure's Magazine*. Done as journalism, they are journalism still, and no further pretensions are set up for them in their new dress. . . . They were written with a purpose, they were published serially with a purpose, and they are reprinted now together to further that same purpose, which was and is—to sound for the civic pride of an apparently shameless citizenship.

There must be such a thing, we reasoned. All

our big boasting could not be empty vanity, nor our pious pretensions hollow sham. American achievements in science, art, and business mean sound abilities at bottom, and our hypocrisy a race sense of fundamental ethics. Even in government we have given proofs of potential greatness, and our political failures are not complete; they are simply ridiculous. But they are ours. Not alone the triumphs and the statesmen, the defeats and the grafters also represent us, and just as truly. Why not see it so and say it? . . .

When I set out on my travels, an honest New Yorker told me honestly that I would find that the

Irish, the Catholic Irish, were at the bottom of it all everywhere. The first city I went to was St. Louis, a German city. The next was Minneapolis, a Scandinavian city, with a leadership of New Englanders. Then came Pittsburg, Scotch Presbyterian, and that was what my New York friend was. "Ah, but they are all foreign populations," I heard. The next city was Philadelphia, the purest American community of all, and the most hopeless. And after that came Chicago and New York, both mongrel-bred, but the one a triumph of reform, the other the best example of good government that I had seen. The "foreign element" excuse is one of the hypocritical lies that save us from the clear sight of ourselves.

Another such conceit of our egotism is that which deplores our politics and lauds our business. This is the wail of the typical American citizen. Now, the typical American citizen is the business man. The typical business man is a bad citizen; he is busy. If he is a "big business man" and very busy, he does not neglect, he is busy with politics, oh, very busy and very businesslike. I found him buying boddlers in St. Louis, defending grafters in Minneapolis, originating corruption in Pittsburg, sharing with bosses in Philadelphia, deploring reform in Chicago, and beating good government with corruption funds in New York. He is a self-righteous fraud, this big business man. He is the chief source of corruption, and it were a boon if he would neglect politics. But he is not the business man that neglects politics; that worthy is the good citizen, the typical business man. He too is busy, he is the one that has no use and therefore no time for politics. When his neglect has permitted bad government to go so far that he can be stirred to action, he is unhappy, and he looks around for a cure that shall be quick, so that he may hurry back to the shop. Naturally, too, when he talks politics, he talks shop. His patent remedy is quack; it is business.

"Give us a business man," he says ("like me," he means). "Let him introduce business methods into politics and government; then I shall be left alone to attend to my business."

There is hardly an office from United States Senator down to Alderman in any part of the country to which the business man has not been elected; yet politics remains corrupt, government pretty bad, and the selfish citizen has to hold himself in readiness like the old volunteer firemen to rush forth at any hour, in any weather, to prevent the fire; and he goes out sometimes and he puts out the fire (after the damage is done) and he goes back to the shop sighing for the business man

in politics. The business man has failed in politics as he has in citizenship. Why?

Because politics is business. That's what's the matter with it. That's what's the matter with everything,—art, literature, religion, journalism, law, medicine,—they're all business, and all—as you see them. Make politics a sport, as they do in England, or a profession, as they do in Germany, and we'll have—well, something else than we have now,—if we want it, which is another question. But don't try to reform politics with the banker, the lawyer, and the dry-goods merchant, for these are business men and there are two great hindrances to their achievement of reform: one is that they are different from, but no better than, the politicians; the other is that politics is not "their line." . . .

The commercial spirit is the spirit of profit, not patriotism; of credit, not honor; of individual gain, not national prosperity; of trade and dickering, not principle. "My business is sacred," says the business man in his heart. "Whatever prospers my business, is good; it must be. A bribe is bad, that is, it is a bad thing to take; but it is not so bad to give one, not if it is necessary to my business." "Business is business" is not a political sentiment, but our politician has caught it. He takes essentially the same view of the bribe, only he saves his self-respect by piling all his contempt upon the bribe-giver, and he has the great advantage of candor. "It is wrong, maybe," he says, "but if a rich merchant can afford to do business with me for the sake of a convenience or to increase his already great wealth, I can afford, for the sake of a living, to meet him half way. I make no pretensions to virtue, not even on Sunday." And as for giving bad government or good, how about the merchant who gives bad goods or good goods, according to the demand? . . .

But do the people want good government? Tammany says they don't. Are the people honest? Are the people better than Tammany? Are they better than the merchant and the politician? Isn't our corrupt government, after all, representative? . . .

No, the contemned methods of our despised politics are the master methods of our braggart business, and the corruption that shocks us in public affairs we practice ourselves in our private concerns. There is no essential difference between the pull that gets your wife into society or for your book a favorable review, and that which gets a heeler into office, a thief out of jail, and a rich man's son on the board of directors of a corporation; none between the corruption of a labor

union, a bank, and a political machine; none between a dummy director of a trust and the caucus-bound member of a legislature; none between a labor boss like Sam Parks, a boss of banks like John D. Rockefeller, a boss of railroads like J. P. Morgan, and a political boss like Matthew S. Quay. The boss is not a political, he is an American institution, the product of a freed people that have not the spirit to be free.

. . . We are pathetically proud of our democratic institutions and our republican form of government, of our grand Constitution and our just laws. We are a free and sovereign people, we govern ourselves and the government is ours. But that is the point. We are responsible, not our leaders, since we follow them. We *let* them divert our loyalty from the United States to some "party"; we *let* them boss the party and turn our municipal democracies into autocracies and our republican nation into a plutocracy. We cheat our government and we let our leaders loot it, and we let them wheedle and bribe our sovereignty from us. True, they pass for us strict laws, but we are content to let them pass also bad laws, giving away public property in exchange; and our good, and often impossible, laws we allow to be used for oppression and blackmail. And what can we say? We break our own laws and rob our own government, the lady at the custom-house, the lyncher with his rope, and the captain of industry with his bribe and his rebate. The spirit of graft and of lawlessness is the American spirit. . . .

The people are not innocent. That is the only "news" in all the journalism of these articles, and no doubt that was not new to many observers. It was to me. When I set out to describe the corrupt systems of certain typical cities, I meant to show simply how the people were deceived and betrayed. But in the very first study—St. Louis—the startling truth lay bare that corruption was not merely political; it was financial, commercial, social; the ramifications of boodle were so complex, various, and far-reaching, that one mind could hardly grasp them, and not even Joseph W. Folk, the tireless prosecutor, could follow them all. This state of things was indicated in the first article which Claude H. Wetmore and I compiled together, but it was not shown plainly enough. Mr. Wetmore lived in St. Louis, and he had respect for names which meant little to me. But when I went next to Minneapolis alone, I could see more independently, without respect for persons, and there were traces of the same phenomenon. The first St. Louis article was called "Tweed Days in St. Louis," and though the "better citizen" received attention

the Tweeds were the center of interest. In "The Shame of Minneapolis," the truth was put into the title; it was the Shame of Minneapolis; not of the Ames administration, not of the Tweeds, but of the city and its citizens. And yet Minneapolis was not nearly so bad as St. Louis; police graft is never so universal as boodle. It is more shocking, but it is so filthy that it cannot involve so large a part of society. So I returned to St. Louis, and I went over the whole ground again, with the people in mind, not alone the caught and convicted boodlers. And this time the true meaning of "Tweed days in St. Louis" was made plain. The article was called "The Shamelessness of St. Louis," and that was the burden of the story. In Pittsburgh also the people was the subject, and though the civic spirit there was better, the extent of the corruption throughout the social organization of the community was indicated. But it was not till I got to Philadelphia that the possibilities of popular corruption were worked out to the limit of humiliating confession. That was the place for such a study. There is nothing like it in the country, except possibly, in Cincinnati. Philadelphia certainly is not merely corrupt; but corrupted, and this was made clear. Philadelphia was charged up to—the American citizen. . . .

. . . If I could—and I will some day—I should show that one of the surest hopes we have is the politician himself. Ask him for good politics; punish him when he gives bad, and reward him when he gives good; make politics pay. Now, he says, you don't know and you don't care, and that you must be flattered and fooled—and there, I say, he is wrong. I did not flatter anybody; I told the truth as near as I could get it, and instead of resentment there was encouragement. After "The Shame of Minneapolis," and "The Shamelessness of St. Louis," not only did citizens of these cities approve, but citizens of other cities, individuals, groups, and organizations, sent in invitations, hundreds of them, "to come and show us up; we're worse than they are."

We Americans may have failed. We may be mercenary and selfish. Democracy with us may be impossible and corruption inevitable, but these articles, if they have proved nothing else, have demonstrated beyond doubt that we can stand the truth; that there is pride in the character of American citizenship; and that this pride may be a power in the land. So this little volume, a record of shame and yet of self-respect, a disgraceful confession, yet a declaration of honor, is dedicated, in all good faith, to the accused—to all the citizens of all the cities in the United States.



## WEALTH AND INCOME

By the first decade of the twentieth century, the social settlement movement and English studies like Charles Booth's *Life and Labor in London* had stimulated American sociologists to more careful observation and recording of the actual conditions of certain segments of American life. Two such studies are represented by Frank H. Streightoff's *Standards of Living among the Industrial People of America* (Boston, 1911) and Robert Hunter's *Poverty* (New York, 1904).

*Poverty*, the older of the two, deals with the very first years of the century and concerns itself with the "marginal" worker whose reward, according to the marginal-utility economists, measured the contribution of labor to the ultimate product. Robert Hunter (1874- ), who became one of the early settlement workers in America, attempts to define poverty, to describe its meaning to the people who endure it, and to relate how poverty passes into pauperism. Hunter relies on his own professional experiences for the body of his facts, but he makes use of government reports and the books of other observers.

Poverty he defines as the condition of life of those whose income is not sufficient to keep them in a state of genuine physical efficiency. There is little factual information about the extent of poverty: we lack statistics on wages, unemployment, pauperism, and the number of men killed by accidents. Certain inferences may be drawn from what facts are available, however. About one fifth of the population of the industrial states and about a tenth of the remainder of the country live in poverty.

Poverty is a social wrong, Hunter argues, and requires social remedy. Remedial action is hindered, however, by the structure of the American government, where the still backward South defeats Northern efforts to raise the standard of living. Consequently, nothing in the way of justice or reform is to be ex-

pected in the next few years. Hunter has a program, none the less. He recommends government regulation of working hours, the prohibition of child labor, social insurance, and the restriction of immigration. If such measures were enacted, the United States might see an end of the process by which society forces people into poverty, whereupon charity proceeds to pauperize them.

Frank H. Streightoff's study of the standard of living is factual in method and lacks the indignation animating Hunter's survey. The facts, as Streightoff's tables present them, afford material for Hunter's conclusions. Unemployment was widespread, averaging three months in the year in the cases studied; 80 percent of its incidence was for reasons beyond control of the unemployed. Wage differentials seemed to depend on the length of time during which a trade had been organized. Industry was leaving the larger centers to take advantage of the cheaper and more docile labor available in smaller towns. Though crowding might be less in such areas, people were no better housed; the semi rural one-industry regions lodged their workers in quarters worse than any New York tenement.

The low-income groups were inadequately housed, they were poorly clad and badly fed because they lacked sufficient knowledge of nutrition to make the most of the food they could buy. Also, earning power was further lessened by the high incidence of accidents. Insufficient education decreased earning power, too, for the poor took their children from school before they had completed the elementary grades. Even if the children remained in school, they would get no proportionate benefit since teaching was often incompetent and the curriculum usually unsuited to the needs of boys and girls who must earn their living or make homes soon after leaving grammar school. Thus, Streightoff's careful statistical compilations. Higher incomes were necessary

to assure America's continued economic advance.

A half decade later, Willford Isbell King (1880— ) published another careful statistical analysis in his *Wealth and Income of the People of the United States* (New York, 1915). He studies national income and savings for the first time; seeks to determine the distribution of the national product among its various classes of receivers; and reviews the course of real hourly wages historically. Over the long term, there has been extraordinary progress, due to great increases in productivity. And from 1865 to 1896, there has been a generally upward movement of real wages. But, apparently since 1906, a downward movement appears to have set in; and thus King and the others—as far as the contemporary scene is concerned—are in essential agreement. (Later statisticians were to question King's conclusions about the first decade of the new century. See below, Part XI.) Though it is impossible to picture the distribution of income among the people as a whole, King finds that 1.6 percent of the population is receiving 19 percent of the income, while 88 percent get 62 percent of it. In 1896, King notes, 88 percent got 65 percent of the nation's income.

Despite all this, King points out that the American worker is better off than his fellows in any other country. The great increase in America's wealth and productivity would have further increased the worker's share of the national income had it not been for the pressure of immigration from Southern and Eastern Europe, which bears heavily on the wages of unskilled labor and thereby brings down the general standard. It is immigration that has reduced labor's gains therefore; a loss without compensation on the east shore of the Atlantic, for the European birth rate has been raised not lessened by emigration so that no improvement of European living standards has taken place. The world's great need, King concludes, is not "social legislation" but measures to decrease the birth rate and so help man "escape from the chains of want forged by his own passions."

The selections are from *Poverty* (1904), reprinted by permission of The Macmillan Company; *Standards of Living among the Industrial People of America* (1911), by permission of Houghton Mifflin Company; and *Wealth and Income of the People of the United States* (1915), by permission of The Macmillan Company.

## Poverty

BY ROBERT HUNTER

. . . BUT TO ESTIMATE in the most conservative way possible, let us take more or less arbitrarily \$460 a year as essential to defray the expenses of an average family,—a father, a mother, and three children,—in the cities and industrial communities of the New England states, of New York, Pennsylvania, Indiana, Ohio, and Illinois. In the cities the amount ought to be placed higher and in the smaller towns the estimate would naturally be lower, but on the whole the average seems a fair one. In the South about \$300 a year would probably cover the cost of like necessities. This estimate of \$300 for a family of average size in the South, and of \$460 for a family of average size in the industrial states of the North, would approach very nearly a fair standard for the poverty line; that is to say, if any working-class family should

be unable to obtain this wage, they would in all likelihood be unable to obtain the necessities for maintaining physical efficiency.

Even if all were agreed upon these amounts, as fair estimates of necessary yearly wages in the North and South, there is still an obstacle in the way of measuring the extent of poverty by this method. This obstacle consists in the inadequacy of our wage statistics. It is hardly to be doubted that the mass of unskilled workers in the North receive less than \$460 a year, or that the same class of laborers in the South receive less than \$300. But, unfortunately, that cannot be proved by any statistics obtainable. There are, however, some figures which show that a very large number of workmen are unable to obtain for themselves and families an average income equal to these stand-

ards. Testimony was given before the Industrial Commission showing that the 150,000 track hands, working on the railroads of the United States, received wages ranging from 47½ cents a day, in the South, to \$1.25 a day in the North. About half of these men are not employed in the winter, so that their yearly wages are further reduced by a period of idleness. But, leaving that out of account, the sum received in the South would amount to less than \$150 a year, and the yearly wage in the North would amount to less than \$375. The same witness testified that these wages were also paid to the carmen and shopmen in the North and South. There were 200,000 men employed in these latter trades. Before the same Commission testimony was given concerning the wages of the street-car employees. For these workers the wages ranged from \$320 a year to \$460. Mr. Elsas, of the Georgia cotton mills, confessed that the average wage paid his employees was \$234 a year. Even men were given only from 75 to 90 cents a day for twelve hours' work. Dr. Peter Roberts says that the average yearly wage in the anthracite district is less than \$500, and that about 60 per cent of the workers do not receive \$450. . . .

While the above figures are altogether too inadequate to permit us to base upon them any estimate as to the extent of poverty, it seems reasonable to assume that the wages of the unskilled laborers in this country rarely rise above the poverty line. A certain percentage are doubtless able to maintain a state of physical efficiency while they have work, but when unemployment comes, and their wages cease, a great mass of the unskilled workers find themselves almost immediately in poverty, if not indeed in actual distress.

It can be assumed, therefore, fairly, I think, that the problem of poverty in this country is in ordinary times confined to a certain percentage of the unskilled laborers who have employment, to most unskilled laborers without employment, and to many unemployed skilled workers. In addition to these workers in poverty, there are those who are weak, infirm, unfortunate, the widows, the families of the sick or the injured, and those who are too incompetent, drunken, or vicious, etc., to be reliable workmen. These are, in the main, the classes of persons in poverty in this country.

It is safe to say that a large number of workers, the mass of unskilled and some skilled workmen with their families, fall beneath the poverty line at least three times during their lives,—during childhood, in the prime of life, and at old age. . . . In this way laborers of the poorest class pass backward and forward over the poverty line. The coming of children, the leaving of children, the

periods of employment and of unemployment, the days of health, the days of sickness, the coming of infirmity, the hour of death,—all of these things either force the workers of this class backward, or carry them forward over the poverty line. A large immigration, insanitary tenements, dangerous trades, industrial changes, panics and bankruptcies—in a word, the slightest economic disturbance or rearrangement—may precipitate them into misery. The margin of life upon which many of them live is so narrow that they must toil every possible hour of working time, and the slightest economic change registers its effect upon this class of workers.

Any one going carefully through the figures which have been given will agree that poverty is widespread in this country. While it is possible that New York State has more poverty than other states, it is doubtful if its poverty is much greater proportionately than that of most of the industrial states. Twelve years ago I made what was practically a personal canvass of the poor in a small town of Indiana. There were no tenements, but the river banks were lined with small cabins and shanties, inhabited by the poorest and most miserable people I have almost ever seen. About the mills and factories were other wretched little communities of working people. All together the distress extended to but slightly less than 14 per cent of the population, and the poverty extended to not less than 20 per cent of the people. I cannot say how typical this town is of other Indiana towns, but I have always been under the impression that conditions were rather better there than in other towns of the same size. In Chicago the conditions of poverty are certainly worse, if anything, than in the smaller towns, and that is also true of the poverty of New York City. On the whole, it seems to me that the most conservative estimate that can fairly be made of the distress existing in the industrial states is 14 per cent of the total population; while in all probability no less than 20 per cent of the people in these states, in ordinarily prosperous years, are in poverty. This brings us to the conclusion that one-fifth, or 6,600,000 persons in the states of New York, Massachusetts, Connecticut, New Jersey, Pennsylvania, Ohio, Illinois, Indiana, and Michigan are in poverty. Taking half of this percentage and applying it to the other states, many of which have important industrial communities, as, for instance, Wisconsin, Colorado, California, Rhode Island, etc., the conclusion is that not less than 10,000,000 persons in the United States are in poverty. This includes, of course, the 4,000,000 persons who are estimated to be dependent upon some form of

public relief. While the estimate is unquestionably a conservative one, it may be thought that, although the percentage, as applied to the industrial states, is fair, half of that percentage, as applied to the states largely agricultural, is too high. I think, however, that the figures concerning the number of farms rented and mortgaged would warrant the use of this percentage, if, indeed, there were not many other facts to warrant an assumption of that amount of poverty. . . .

The conclusion that about 10,000,000 persons in the United States are in poverty is, of course, largely based upon the figures of distress and of unemployment which have been given; and it would be warranted, were there no other indications of widespread poverty. However, many indications lend themselves to the support of this conclusion. A very large proportion of the working classes are propertyless; a very large mass of people, not only in our largest cities, but in all industrial communities as well, live in most insanitary conditions; there is a high death-rate from tuberculosis in most of our states; a large proportion of the unskilled workers receive, even when employed, wages insufficient to obtain the necessities for maintaining physical efficiency; from all indications, the number injured and killed in dangerous trades is enormous; and, lastly, there is uncertainty of employment for all classes of workers. About 30 percent of the workers in the industrial states are employed only a part of each year, and, in consequence, suffer a serious decrease in their yearly wages, which, in the case of the unskilled, at least, means to suffer poverty. Nevertheless, the estimate that somewhat over 10,000,000 persons in this country are in poverty does not indicate that our poverty is as great proportionately as that of England. But it should be said that a careful examination would, in all probability, disclose a greater poverty than the estimate indicates. . . .

. . . There are probably in fairly prosperous years no less than 10,000,000 persons in poverty; that is to say, underfed, underclothed, and poorly housed. Of these about 4,000,000 persons are public paupers. Over 2,000,000 working-men are unemployed from four to six months in the year. About 500,000 male immigrants arrive yearly and seek work in the very districts where unemployment is greatest. Nearly half of the families in the country are propertyless. Over 1,700,000 little children are forced to become wage-earners when they should still be in school. About 5,000,000 women find it necessary to work and about 2,000,000 are employed in factories, mills, etc. Probably no less

than 1,000,000 workers are injured or killed each year while doing their work, and about 10,000,000 of the persons now living will, if the present ratio is kept up, die of the preventable disease, tuberculosis. We know that many workmen are overworked and underpaid. We know in a general way that unnecessary disease is far too prevalent. We know some of the insanitary evils of tenements and factories; we know of the neglect of the street child, the aged, the infirm, the crippled. Furthermore, we are beginning to realize the monstrous injustice of compelling those who are unemployed, who are injured in industry, who have acquired diseases due to their occupation, or who have been made widows or orphans by industrial accidents, to become paupers in order that they may be housed, fed, and clothed. Something is known concerning these problems of poverty, and some of them at least are possible of remedy.

To deal with these specific problems, I have elsewhere mentioned some reforms which seem to me preventive in their nature. They contemplate mainly such legislative action as may enforce upon the entire country certain minimum standards of working and of living conditions. They would make all tenements and factories sanitary; they would regulate the hours of work, especially for women and children; they would regulate and thoroughly supervise dangerous trades; they would institute all necessary measures to stamp out unnecessary disease and to prevent unnecessary death; they would prohibit entirely child labor; they would institute all necessary educational and recreational institutions to replace the social and educational losses of the home and the domestic workshop; they would perfect, as far as possible, legislation and institutions to make industry pay the necessary and legitimate cost of producing and maintaining efficient laborers; they would institute, on the lines of foreign experience, measures to compensate labor for enforced seasons of idleness, due to sickness, old age, lack of work, or other causes beyond the control of the workman; they would prevent parasitism on the part of either the consumer or the producer and charge up the full costs of labor in production to the beneficiary, instead of compelling the worker at certain times to enforce his demand for maintenance through the tax rate and by becoming a pauper; they would restrict the power of employer and of ship-owner to stimulate for purely selfish ends an excessive immigration, and in this way to beat down wages and to increase unemployment. . . .

*The Standard of Living*

BY FRANK H. STREIGHTOFF

... THE MOST SATISFACTORY wage statistics however are those published as Bulletin no. 93 of the permanent Census Bureau. In 1904, an investigation was made of 123,703, or 62.9 per cent, of the manufacturing establishments, and 3,297,819, or 47 per cent, of the wage-earners employed during the busy week. The crowning achievement of this investigation was the schedule copied as Table XXII in this essay.

Assuming fifty weeks as the normal working year, this table shows 92,535 grown men earning less than \$3 per week, or \$150 per year; 338,635 receiving less than \$5 weekly, or \$250 annually; 1,116,199 paid no more than \$8 a week, or \$400 per annum; 2,009,914 who are compensated at less than \$10 per week, or \$500 yearly; and 2,664,349 who are not considered worth more than \$12 a week, or \$600 a year, to their employers. To these

TABLE XXII

ESTIMATED DISTRIBUTION BY WEEKLY EARNINGS OF AVERAGE NUMBER OF ALL WAGE-EARNERS, AND MEN, WOMEN, AND CHILDREN, 1905

*All Wage-earners**Men 16 years and over*

<i>Weekly earnings</i>	<i>Number</i>	<i>Percentage in groups</i>	<i>Cumulative percentage</i>	<i>Number</i>	<i>Percentage in groups</i>	<i>Cumulative percentage</i>
Less than \$3	225,793	4.1	100.0	92,535	2.2	100.0
\$3 to \$4	264,626	4.8	95.9	96,569	2.3	97.8
4 to 5	340,113	6.2	91.1	149,531	3.5	95.5
5 to 6	363,693	6.7	84.9	177,550	4.2	92.0
6 to 7	454,285	8.3	78.2	272,288	6.4	87.8
7 to 8	453,203	8.3	69.9	327,726	7.7	81.4
8 to 9	423,689	7.8	61.6	336,669	7.9	73.7
9 to 10	619,465	11.3	53.8	557,046	13.1	65.8
10 to 12	708,858	13.0	42.5	654,435	15.4	52.7
12 to 15	741,036	13.5	29.5	714,816	16.9	37.3
15 to 20	618,314	11.3	16.0	609,797	14.4	20.4
20 to 25	171,844	3.1	4.7	170,571	4.0	6.0
25 and over	85,402	1.6	1.6	85,005	2.0	2.0
Total	5,470,321	100.0		4,244,538	100.0	

*Women 16 years and over**Children under 16 years*

	<i>Number</i>	<i>Percentage in groups</i>	<i>Cumulative percentage</i>		<i>Number</i>	<i>Percentage in groups</i>	<i>Cumulative percentage</i>
Less than \$3	77,826	7.3	100.0		55,432	34.7	100.0
\$3 to \$4	115,741	10.9	92.7		52,316	32.7	65.3
4 to 5	158,926	14.9	81.8		31,656	19.8	32.6
5 to 6	173,713	16.3	66.9		12,430	7.8	12.8
6 to 7	176,224	16.5	50.6		5,773	3.6	5.0
7 to 8	124,061	11.7	34.1		1,416	0.9	1.4
8 to 9	86,467	8.1	22.4		553	0.3	0.5
9 to 10	62,193	5.8	14.3		226	0.1	0.2
10 to 12	54,340	5.1	8.5		83	0.1	0.1
12 to 15	26,207	2.5	3.4		13	( <sup>a</sup> )	( <sup>a</sup> )
15 to 20	8,516	0.8	0.9		1	( <sup>a</sup> )	( <sup>a</sup> )
20 to 25	1,273	0.1	0.1				
25 and over	397	( <sup>a</sup> )	( <sup>a</sup> )				
Total	1,065,884				159,899		

(<sup>a</sup>) Less than one tenth of 1 per cent.

can be added at least half a million coal-miners and railroad hands, with the result that in manufacture, transportation, and mining over three million men, about half of whom bear the entire burden of supporting their families, are unable to command incomes of \$600 per year. It must be remembered that persons occupied in the mechanical pursuits, three fourths of those engaged in trade and transportation, and all those interested in the field of domestic and personal service, in fact about one half of the men more or less directly connected with manufacturing and urban pursuits, have been left entirely out of this account. It would be conservative to estimate the number of adult males, usually classed as industrial workers and persons engaged in personal service, who receive less than \$600 a year for their labor, at five million. Again, by multiplying the figures for persons engaged in manufactures, some of the building trades, coal-mining, clerks in trade and transportation, and bartenders, and of the railway employees, as classified in the abstract of the Twelfth Census and the Statistical Report of the Interstate Commerce Commission (figures of 1900), by the percentages which may be readily calculated from those given by the Commissioner of Labor, it is developed that 4,979,000 adult males are employed at less than \$12 a week, the equivalent of \$600 a year. Since many trades are not mentioned at all in this computation, it is safe to consider the five million before mentioned as a conservative estimate of the number of male industrial workers who do not earn \$600 a year. Professor Ryan wrote, "the conclusion seems justified that at least 60 per cent of male workers in the cities of the United States are to-day (1905) receiving less than \$600 annually." . . . "A prominent official in one of the largest charities in New York City thinks that \$2.00 a day, or about \$624 a year is necessary for a family of five in that city." Professor Ryan is willing to accept \$600. He thus summarizes his conclusions: "Anything less than \$600 per year is not a Living Wage in any of the cities of the United States; second, this sum is PROBABLY a Living Wage in those cities in the Southern States in which fuel, clothing, food, and some other items of expenditure are cheaper than in the North; third, it is POSSIBLY a Living Wage in the moderately sized cities of the West, North, and East; and fourth, in some of the largest cities of the last named regions, it is certainly not a Living Wage."

It was such a surprise to many when the committee of the New York State Conference of Charities and Corrections decided that \$825 was the necessary income to allow a family of five to

maintain a fairly proper standard of living in New York City, that it may well be questioned whether \$600 is not too low a minimum for the large majority of the smaller cities in the North, East, and West. To test this criterion, a very intelligent man who works at odd jobs in Middletown, Connecticut, was consulted. At first he was confident that a decent living could not be obtained for less than \$750 per year. It was impressed upon him that it was a *minimum* wage, merely enough to maintain physical and mental efficiency that was sought. On the basis of his accounts for 1908, and much careful calculation, he finally produced the following as his minimum estimate:

*Minimum cost of living for one year  
for family of five*

Rent	\$120.
Fuel, 5 tons of coal	35.
1 cord of wood	5.
Food, Groceries	168.
Milk, 1 quart per day at 8 cents	29.20
Vegetables	24.
Meat and fish	96.
Clothing	140.
Church and other organizations	20.
Pleasure	20.
Doctor	12.
Miscellaneous	40.
Total	709.20

This estimate can be summarized thus:

Rent	\$120.	16.9%
Food	317.20	44.8
Clothing	140.	19.7
Fuel	40.	5.1

This leaves 13.5 per cent for other expenditures which, in comparison with the standards in chapter on budgets, is not excessively large.

Now assume arbitrarily that the family consists of a husband, a wife, a boy between eleven and fourteen, a child, between seven and ten, and a baby under three; the total food consumption will be that of 3.70 adult males. At twenty-two cents per man per day, it would cost \$297 a year to provide adequate nourishment for this household. The estimate of this man, then, was not too high. His family, especially his wife, is not by any means well clothed in the usual sense of the term, but appears to be equipped with the minimum for health and comfort. Reduce his figure for clothing to \$120. It will be remembered that Dr. Chapin concluded that a family could not be clothed for less than \$100, and did not affirm that this sum would suffice. His estimate makes absolutely no

provision for night-clothes, overshoes and other equipment necessary for encountering storms, and the amount allowed for foot wear, particularly for each boy, is incredibly small. So \$120 for clothing is certainly not too high, especially in the light of the standard fixed by the Iowa Bureau of Labor Statistics. One hundred and twenty dollars a year will not hire a very good house, but diminish this figure to \$100. The necessary expenses now are:

Food	\$297
Rent	100
Clothing	120
Fuel	40
Church and other organizations	20
Medical attendance	12
Amusement	20
Miscellaneous	40
Total	649

Surely this is not a high estimate for a Living Wage. It makes no provision for saving. Middletown is a small city, and its prices are comparatively low. The estimate was very carefully made as a minimum and then reduced by sixty dollars. It is, then, conservative to set \$650 as the extreme low limit of the Living Wage in cities of the North, East, and West. Probably \$600 is high enough for the cities of the South. At this wage there can be no saving and a minimum of pleasure. Yet there are in the United States, at least five million industrial workmen who are earning \$600 or less a year.

It will be remembered that 1,116,199 men engaged in manufacture alone are earning no more than \$400 per annum, and 2,009,914 are receiving no more than \$500. If all industrial occupations are considered, probably four million men are not enjoying annual incomes of \$600.

### *Wealth and Income*

BY WILLFORD I. KING

#### THE NATIONAL DIVIDEND

BY DEDUCTING the total capital savings from the book income, we arrive at the national dividend. Table XXII gives us a very rough estimate of the total savings and of the value of the goods actually consumed by the people. . . .

But, after all reasonable allowances have been made, the fact remains, practically, that, beginning

with 1870, there has been an increase in the national dividend so enormous that it cannot logically be ascribed to anything but the tremendous advance in productive power due to the revolutionary improvements in industry which have characterized the last half century. It seems improbable that any other great nation has ever experienced such sweeping gains in the average income of the inhabitants. It has, almost necessarily,

TABLE XXII

#### THE NATIONAL DIVIDEND

FOR THE CONTINENTAL UNITED STATES MEASURED IN PURCHASING POWER  
Estimates Based on Production

Census Year	Estimated Total Income in Millions of Dollars	Estimated Capital Savings in Millions of Dollars <sup>a</sup>	Net Goods Consumed in Millions of Dollars <sup>b</sup>	Index of Price Level	Value at Prices of 1890-1899 of all Goods Consumed	
					Total in Millions of Dollars	Per Capita in Dollars
1850	2,214	400	1,814	139.2	1,303	56
1860	3,636	843	2,793	141.3	1,977	63
1870	6,720	1,047	5,673	221.6	2,560	66
1880	7,391	1,267	6,124	132.4	4,626	92
1890	12,082	1,612	10,470	113.6	9,218	146
1900	17,964	1,569	16,395	101.7	16,121	212
1910	30,529	2,000	28,529	126.5	22,552	245

<sup>a</sup> Estimated by deducting from the average annual increase in wealth for the decade, the average annual increase in land values for the same period.

<sup>b</sup> Column 2 minus column 3.

been accompanied by a great rise in the standard of living. The increase has not been so much in the quantity as in the quality of the goods thought of as necessities by the average citizen. Today, the urban housewife, for example, looks upon running water, a bath room, electric lights, a gas range, and a piano as necessary household equipments. She demands that her food be purchased not in bulk, but in air-tight sanitary packages. She does not care to go to market but expects her purchases to be delivered in small amounts at frequent intervals. She must have clothing not only sufficient for comfort and neatness but also strictly à la mode. Her children must not thumb dog-eared books and dirty slates while seated in a dingy little room on rough wooden benches in the presence of a pedagogue who pieces out his wages as a farm laborer by teaching "the three R's" during the winter. On the contrary, they must have an endless chain of interesting reading books, must write in pretty clean tablets, and must work with up-to-the-minute laboratory equipment under the direction of highly trained teachers in a beautiful, light, airy school room. Neither are the children expected to quit school when they have learned to "figger" and to parse. They must go to high school and become versed in the scientific knowledge of the day, with a little home economics, music, and manual training on the side. When supper is over, the children and their parents do not entertain each other or visit the neighbors, but instead hire the services of paid entertainers at the theatre or moving picture show or take a ride in the boat or car or automobile. No matter which way one turns, the demand is for far better and better quality, more and more elaborate service, greater and greater variety. . . .

But, after all, absolute figures are of but little interest to most of us. Which has been gaining at the expense of the others? Which has been losing out in the race? The answer to these questions is presented in Table XXXI.

TABLE XXXI

THE ESTIMATED PERCENTAGES OF THE TOTAL NATIONAL INCOME RECEIVED RESPECTIVELY BY LABOR, CAPITAL, LAND, AND THE ENTREPRENEUR

Census Year	Shares of Product				Total
	Wages and Salaries	Interest	Rent	Profits	
1850	35.8	12.5	7.7	44.0	100.0
1860	37.2	14.7	8.8	39.3	100.0
1870	48.6	12.9	6.9	31.6	100.0
1880	51.5	18.6	8.7	21.3	100.1

1890	53.5	14.4	7.6	24.6	100.1
1900	47.3	15.0	7.8	30.0	100.1
1910	46.9	16.8	8.8	27.5	100.0

#### THE SHARES OF CAPITAL AND THE ENTREPRENEUR

The combined share of interest and profits showed a striking decline between 1860 and 1870 and has since tended to remain practically constant. The decline was probably largely a result of the freeing of the slaves and the destruction of capital due to the Civil War. When the slaves were largely transformed into wage earners, the natural outcome was a large increase in the wages bill at the expense of interest and profits. The industry of the South was so disorganized by the conflict that it took a number of years for business to get on its feet again; hence, the share of profits and interest was cut down even further though this effect was partially offset by the higher interest rates prevailing for the capital which escaped destruction.

#### THE SHARE OF LABOR

Since rent has constituted a share relatively stationary and comparatively unimportant in amount, wages have been practically the complement of the combined factors of interest and profits. The great rise of the share of wages during the decade 1860 to 1870 has therefore just been accounted for in explaining the fall of interest and profits. It will be noted that the rise in the percentage received by wages continued slowly until 1890 and has since been gradually declining. Is there any logical explanation of this change?

Statistical studies of the fraction of the total income going to wages are so rare that few if any laws on this score have yet been inductively formulated. Economists are not even united upon any deductive theory for this case. Any reasons assigned, therefore, must be purely hypothetical. The most probable causes for the decline of the last two decades are perhaps the disappearance of free land, with the attendant increase in the pressure upon our natural resources, and the great influx from abroad of labor of a low degree of efficiency. Whether these are or are not the correct explanations of the changing trend, the fact remains that the total share going to labor has, of recent years, been falling off despite the efforts of labor unions and combinations. It still remains a mooted question whether any labor organization not monopolizing practically the whole wage earning class can, through combination, cause a larger share of the total national income to be paid as wages than would fall to the lot of labor under a regime of free competition.

It is the worker's share of the product which



seems to appeal most to the imagination of present day writers. This is the period in which "down-trodden labor" is at least coming to have its importance recognized. But the question of primary importance is not how much does labor as a whole receive but how much, on the average, does each laborer get. Is the worker being treated justly? Does the unskilled toiler receive a fair living wage? If not, how can his condition be bettered?

And these queries are rightly considered of the first importance. The overwhelming majority of our population are dependent primarily upon wages for their income and, therefore, the economic welfare of the nation is largely synonymous with the wages of the working people measured in purchasing power; in other words, it depends upon the extent to which the money wages received are adequate to furnish the necessities and customary luxuries of life.

But nothing is more futile than the denunciation of the employers as a wicked and heartless class because they refuse to pay higher wages. The employer is the slave of existing competitive conditions. In the established and better understood industries, he cannot long pay higher wages for the same grade of labor than do his competitors or he will soon be forced to the wall. But these competitive conditions may be changed. They are the results of law and custom and society can, by legal enactment, largely revolutionize them at its pleasure. Suppose, that, by radical legislative changes, the largest possible fraction of the national dividend was diverted to the share of wages. How would it affect the wage earners?

In 1910, the wages bill of the nation was approximately \$14,303,600,000. It is possible that the government might tax away all rent and turn the proceeds to the benefit of labor. Interest cannot be decreased without resulting in a loss of saving; hence, the interest bill could scarcely be lessened without destructive effects to the capital supply of the country, thus ruining our industries. Nothing, therefore, could be gained from that source. Average profits, as will be seen by reference to Table XXXII, are only about half as large again as average wages. We could not get the services of entrepreneurs for nothing and it must be conceded that the farmers and planters and business men, as a rule, rank higher in efficiency than does the average employee; therefore, these entrepreneurs must necessarily be paid somewhat more than the average wage of the latter. Suppose, that, as the maximum possible allowance, we took one fourth of all profits and diverted those also to the benefit of the employees. The total allowance for wages

and salaries would now amount to about \$19,079,500,000, or a gain of almost exactly one third over and above the present payments for labor.

But not nearly all of this one third addition would be a gain to the income of the employed classes, for very many employees own land and derive a considerable fraction of their income from its rent. The commonest example of this is the case of homeowners who enjoy the services of the land on which their residence stands. Many others receive rent and profits indirectly through the ownership of the stocks or bonds of corporations. A few obtain profits through business ventures of their own. For these employees, the transfer of rent and profits to the wages fund means taking money out of one pocket and transferring it to another, though the amount lost might be greater or less than that gained. Thus, it would seem improbable that, with our present national productive power, any feasible system of distribution could increase the average wage earner's income in purchasing power by more than one fourth and this is an extreme rather than a moderate estimate. While such a change might or might not be desirable, it would, at least, work no startling revolution in the condition of the employees of the United States. The grim fact remains that the quantity of goods turned out absolutely limits the income of labor and that no reform will bring universal prosperity which is not based fundamentally upon increasing the national income. After all, the Classical Economists were right in emphasizing the side of production in contradistinction to that of distribution. Nature refuses to yield her bounty except in return for effort expended. Demands for higher wages have never yet unlocked her storehouses.

We have talked about the possibilities, through a new system of distribution, of increasing the income of the laboring classes. We have observed that labor has been fairly successful in retaining about a half of the total product, but this tells us nothing about the portion going to each individual and the last is a question of vastly more importance than the study of the share obtained by labor *en masse*. Has the compensation for the efforts of the average laborer increased as fast as should be the case considering the tremendous improvements in industrial processes? Has the entrepreneur distanced the employee in the race, constantly securing the lion's share of the added spoils? Some light will be thrown upon these questions by reference to Table XXXII.

According to generally accepted economic theory, the price of labor is determined by the value

TABLE XXXII  
THE ESTIMATED RETURNS FOR PERSONAL EFFORTS IN THE CONTINENTAL UNITED STATES

Census Year	Index of Price Level <sup>a</sup>	Total Wages and Salaries in Millions of Dollars	Number of Employees in Thousands	Average Money Wage per Employee per Annum	Average Wage per Employee in Purchasing Power <sup>b</sup>	Total Profits in Millions of Dollars	Number of Entrepreneurs in Thousands	Average Money-Profits in Dollars per Entrepreneur	Average Profits per Entrepreneur in Purchasing Power <sup>c</sup>
1850	139.2	792.8	3,880	\$204	147	973.9	2,200	443	318
1860	141.3	1,351.1	5,090	265	188	1,430.7	3,150	454	321
1870	221.6	3,269.5	8,240	397	179	2,122.9	4,270	497	224
1880	132.4	3,803.6	11,790	323	244	1,571.6	5,600	281	212
1890	113.6	6,461.8	16,220	398	350	2,967.1	7,100	418	368
1900	101.7	8,490.7	20,350	417	410	5,382.1	8,720	617	607
1910	126.5	14,303.6	28,200	507	401	8,408.1	9,350	899	711

<sup>a</sup> United States Bureau of Labor wholesale price index for year preceding the Census.

<sup>b</sup> Purchasing power of the money wage at the prices of 1890-1899.

<sup>c</sup> Purchasing power of the money profits at the prices of 1890-1899.

of its product. When labor has much capital and natural resources with which to work, the price of labor is high, and vice versa. We have seen that the capital supply has more than kept pace with the number of workers but that the land supply per man has decreased. We shall examine into the net effects which this change has produced on labor. In considering the price of labor as a commodity, each occupation and industry has been given a constant weight in order that the results might not be vitiated by a varying composition of the wage earning body at different dates. The weights are roughly proportional to the number of workers at some date chosen. The results are all computed from the reports of governmental investigations, have been carefully checked, and are believed to be reasonably accurate for the entire ground covered, except in the case of agricultural labor. This is subject to a considerable degree of error but is based on the only government reports available, those published by the Department of Agriculture.

The figures for wages preceding 1890 are all based on the Aldrich Report prepared by Roland P. Falkner. The weights there used were varied according to the reported number of workers in each industry from year to year. This gives an index of average earnings per hour rather than an index of the price of labor. The distinction is important, but it is unlikely that the difference in the weighting systems would noticeably change the indices obtained. It is almost certain that the trend of wages shown would not be materially affected.

The fact should be noted that, while we have

heretofore been dealing with the earnings of all employees, the following tables take into consideration wage earners only, entirely omitting all salaried workers. The first tables show changes in the hourly rates. It was impossible to get accurate statistics concerning the wages of women before 1890, hence the figures for the years 1850 to 1890 are wholly for male workers. . . .

It is only necessary to call attention to a few salient features. It is noticeable that the price of labor is much more stable than the price of other commodities. The tremendous rise of the latter in 1865, due to the greenback inflation, was accompanied by a smaller increase in money wages resulting in a marked drop in the purchasing power of an hour's work. In almost every instance, wages have failed to respond fully to short time price fluctuations and, as a result, there is close inverse correlation between the short time changes in the commodity price level and average real wages.

From 1865 to 1896, the general trend of real wages was very steadily toward higher levels, except for temporary backsets. After 1896, the progress upward ceased and, since 1906, there are some suspicious indications of a general decline. The important feature is that the ascent has been checked, and that, right in the face of the greatest industrial development that the world has ever seen. A little further vision on the part of our statesmen at Washington seems, at present, even more essential to the welfare of the working classes than does the inventive genius of the scientist in his laboratory, the monopolizing power of the labor union, or the organizing ability of the great captain of industry. . . .

TABLE XXXIV  
 INDICES OF COMMODITY PRICES AND OF HOURLY  
 WAGES FOR MEN IN ALL INDUSTRIES  
 Base 1890-1899

Year	Index of Money Wages <sup>a</sup>	Index of Com- modity Prices	Index of Wages in Pur- chasing Power	Year	Index of Money Wages <sup>a</sup>	Index of Com- modity Prices	Index of Wages in Pur- chasing Power
1850	47.1	100.6	46.8	1870	94.8	162.8	58.2
1851	47.6	111.2	42.8	1871	94.4	153.4	61.5
1852	48.8	110.4	44.2	1872	94.8	149.3	63.5
1853	49.1	118.4	41.5	1873	94.2	145.4	64.8
1854	51.4	118.4	43.4	1874	92.2	146.5	62.9
1855	52.3	123.1	42.5	1875	91.4	145.3	62.9
1856	53.1	126.6	41.9	1876	87.6	138.2	63.4
1857	54.2	128.5	42.2	1877	83.2	128.1	64.9
1858	53.0	127.6	41.6	1878	81.5	117.9	69.1
1859	53.5	116.0	46.1	1879	80.6	107.1	75.3
1860	54.2	112.7	48.1	1880	82.7	118.3	69.9
1861	54.6	106.1	51.5	1881	87.2	122.2	71.3
1862	57.2	117.4	48.8	1882	88.4	123.0	71.9
1863	65.5	149.0	44.0	1883	92.1	120.2	76.6
1864	73.9	194.0	38.1	1884	89.7	115.7	77.6
1865	82.7	261.8	31.6	1885	90.2	105.2	85.7
1866	85.8	211.6	40.6	1886	91.0	105.3	86.4
1867	90.5	186.9	48.4	1887	93.3	106.6	87.5
1868	92.7	196.1	47.3	1888	94.1	108.5	86.7
1869	94.1	171.7	54.8	1889	97.0	111.1	87.3
				1890	100.2	105.6	94.9

<sup>a</sup> Computed from Tables 42 and 44, *Senate Report 1394*, Part I, 1893, pp. 176-8.

TABLE XXXV  
RELATIVE PRICES OF COMMODITIES AND MEN'S LABOR  
PER HOUR IN ALL INDUSTRIES  
Base 1890-1899

1890-1899				1900-1909			
Year	Labor Index	Commodity Index	Index of Commodity Value of Labor	Year	Labor Index	Commodity Index	Index of Commodity Value of Labor
1890	100.2	105.6	94.8	1905	125.5	115.3	108.8
1891	100.5	105.8	95.0	1906	132.0	120.0	110.0
1892	101.8	103.7	98.1	1907	137.1	125.8	109.0
1893	101.6	104.6	97.1	1908	133.5	125.4	106.4
1894	96.7	98.3	98.4	1909	132.9	130.0	102.2
1895	98.2	96.0	102.3	1910	137.6	135.2	101.8
1896	99.0	94.6	104.7	1911	141.0	133.3	105.8
1897	99.3	94.7	104.8	1912	145.2	141.0	103.0
1898	99.6	97.1	102.6	Av. price of labor per hour, 1890-99	\$0.1510		
1899	103.0	99.5	103.5				
1900	107.0	105.3	101.6				
1901	110.2	107.5	102.5				
1902	114.4	112.6	101.6	Av. price of labor per hour, 1912	\$0.2192		
1903	119.8	114.5	104.6				
1904	122.6	115.0	106.6				

# AMERICAN PROBLEMS

## CORPORATE AND FINANCE CAPITALISM IN AMERICA

### COMMISSIONER OF CORPORATIONS

IN 1904, the gathering protest against corporate abuses reached President Theodore Roosevelt. Through his influence, a provision for a Bureau of Corporations was inserted into the bill organizing the new Department of Commerce and Labor. This Bureau was to turn the salutary light of publicity on certain corporate activities and, if nothing else, to make Americans aware of the dangers of monopoly practices. Notable among the Bureau's reports is the *Report on the Steel Industry* (1911), which tells part of the story of the organization of the United States Steel Corporation.

The consolidation of plants had created a situation in which several large units in the steel industry competed for the market in heavy steel products. Competition operated with sufficient effect to cause marked discomfort among rival interests, the report declares, and the great steelmakers of the country, under the guidance of the elder Morgan, decided that union was desirable. This was notably so because Andrew Carnegie, the greatest manufacturer of heavy steel, was threatening to go into the light steel field in order to join battle with the rivals created by the investment bankers.

A holding company was organized in 1901, therefore, and its billion dollars in capital stock and more than three hundred millions of bonds were exchanged for the plants and

goodwill of the competing Carnegie, Rockefeller, Morgan and Moore interests in steel. Carnegie was eliminated as a source of disturbance and harmony was restored by the erection of a system integrating all the elements in steel production—from the ore beds of the Great Lakes area to the mills of Pittsburgh and Chicago for fabricating steel wire. Also, the downward movement of prices in steel was checked—the era of “administered prices” had begun.

In addition to detailing the story of the merger, the Commissioner of Corporations attempted a physical valuation of the plant and material assets belonging to the new holding company. That appraisal made clear the extent to which corporate stock represented an intangible asset rather than a tangible one; even at a current market valuation of plants and other assets, the “billion dollar” United States Steel Corporation was worth no more than \$700 million; almost half of its securities represented “capitalized goodwill.”

The Bureau of Corporations continued to exist until 1914 when it was replaced by the Federal Trade Commission having amplified powers to check unfair methods of competition.

The selections here reprinted are from the Bureau's *Report on the Steel Industry* (2 vols., Washington, 1911).

*Report on the United States Steel Corporation*

BY THE BUREAU OF CORPORATIONS

## ORGANIZATION OF THE UNITED STATES STEEL CORPORATION IN 1901

## FUNDAMENTAL CAUSES OF THIS CONSOLIDATION

THE FUNDAMENTAL CAUSES of the formation of the United States Steel Corporation were substantially the same as in the case of the earlier consolidations described above, namely, (1) restriction or prevention of competition by combination; (2) integration; (3) stock inflation.

While in the case of the several consolidations thus far considered all three of these causes were not invariably present, all of them were factors in the organization of the Steel Corporation, and the same processes already described were repeated there in a more comprehensive manner and on a vaster scale.

The restriction of competition was the controlling motive in the organization of the Steel Corporation. While competition had already been greatly restricted in certain branches of the steel industry, a striking result of the consolidation movement above described was that competition was not thereby destroyed. Instead it soon developed that the formation of these great consolidations was likely to bring on an era of competition more severe than any the industry had yet experienced. This unforeseen outcome of consolidation, as explained below, was largely due to the tendency of these great consolidations to secure greater integration and thus to make themselves practically independent in all stages of production from the ore up.

The economies and commercial advantages rendered possible by integration through a still greater merger were also considerable, and, moreover, furnished a convenient argument in attempts to justify the merging of these competing concerns.

The third factor, namely, the inflation of securities, was also extremely important. The upward swing of trade and industry in the United States had not exhausted its vigor, and the business world was still ready to support vast commercial and financial undertakings.

There was thus brought about a temporary conjunction of conditions in the industry which presented an extraordinary inducement to prevent a bitter commercial conflict, and at the same time a remarkable opportunity to organize a consolidation which promised to yield unexampled profits

from the flotation of an enormous amount of watered stock.

For a clear understanding of the real significance of the organization of the Steel Corporation, it is necessary to describe the situation in some detail.

POSITION OF THE STEEL INDUSTRY.—The preceding discussion has shown that a remarkable condition had been reached in the iron and steel industry by the close of the year 1900. In the first place, the manufacture of crude and semifinished steel was largely in the hands of a comparatively few great concerns. The manufacture of several of the more finished lines, such as wire and wire products, tin plate, sheets, and tubes, moreover, had been substantially transferred to another group of consolidations, each of which with few exceptions had a more or less monopolistic position. These latter concerns were in great measure dependent upon the larger steel makers for a supply of their raw material, namely, semifinished steel. The larger steel concerns, on the other hand, were chiefly engaged in the manufacture of crude and semifinished steel or of heavier finished steel products, such as rails and structural material, which did not bring them directly in conflict with the group of concerns making the more elaborated products.

The relationships of the companies in these two groups to one another have already been partly indicated in the preceding discussion. These relationships had, however, such a vital bearing upon the organization of the Steel Corporation that they may be briefly summarized at this point.

The large consolidations which were subsequently merged into the Steel Corporation may be conveniently grouped in two classes—(1) the "primary group," or those making chiefly semifinished steel and heavy steel products, and (2) the "secondary group," consisting of those making lighter and more elaborated products.

The primary group of companies comprised the Carnegie Company, the Federal Steel Company, and the National Steel Company. Of these, the Carnegie Company was, of course, the most important. As already shown, it was a highly integrated concern, completely independent as to the production of its raw materials, and also pig iron and crude steel. It also had very important transportation facilities. The company, however, depended to a considerable extent for the market-

ing of its semifinished steel products (which comprised a very large portion of its total output) upon other steel manufacturers, who used such semifinished steel as their raw material. Some of its most important customers, in fact, were concerns in the second group of consolidations just noted.

The Federal Steel Company was in much the same general position as the Carnegie Company, being very thoroughly integrated, with extensive holdings of iron-ore and coking-coal lands, and with even more important transportation facilities. A rather larger proportion of its crude steel was worked up into finished forms (chiefly heavy lines) than in the case of the Carnegie Company; nevertheless, the company depended upon other steel manufacturers for an outlet for a part of its production.

The National Steel Company, while thoroughly integrated with respect to raw materials, was almost entirely dependent upon other manufacturers for a market for its steel, which, as already shown, consisted chiefly of such semifinished products as billets, sheet bars, and tin-plate bars. This company, however, had a ready market for the bulk of its steel products, because of its close affiliation with the other so-called "Moore" concerns, the Tin Plate, Sheet Steel, and Steel Hoop companies.

It is obvious, therefore, that all three of these steel-making concerns, despite their great size, were in a measure dependent upon other manufacturers.

A very important concern closely connected with this primary group of steel-making companies was the Lake Superior Consolidated Iron Mines, controlled by Standard Oil interests. This company had enormous holdings of ore in the Lake region, as well as a very important ore railroad to upper Lake ports—the Duluth, Missabe and Northern. Moreover, as previously stated, the controlling interests in this concern also controlled the Bessemer Steamship Company, which owned the largest fleet of vessels on the Great Lakes. These interests were not engaged in steel manufacture in any way.

The principal concerns in the secondary group were the American Steel and Wire Company, the National Tube Company, the American Tin Plate Company, the American Sheet Steel Company, the American Steel Hoop Company, and the American Bridge Company. . . .

At the organization of these great companies, therefore, there was a marked degree of interdependence among them. For a short time after their formation this general situation was fairly

well maintained. The three largest concerns—the Carnegie Company, the Federal Steel Company, and the National Steel Company—still restricted their operations for the most part to the production of crude steel or the cruder and simpler steel products which they had previously made, while those consolidations making more highly finished products continued to buy a large portion of their requirements of iron and steel from the principal steel-making concerns just named.

This balance or adjustment of trade conditions was, however, speedily disturbed. As already shown, the makers of the lighter forms of steel products began to extend the scope of their activities, or to plan such extensions, with a view to supplying themselves with the raw material of manufacture, namely, the semifinished steel hitherto purchased from others.

In other words, just at the time that concerns like the Carnegie and Federal Steel companies had extended their investment in raw materials and transportation facilities and had greatly enlarged their plant capacity, they were confronted with the loss of the patronage of some of their best customers, because the latter, in turn, had been extending their activities in the same directions. Under these circumstances a counterpolicy of extension into finished lines by the larger steel concerns became almost imperative. This counterstroke was, in fact, promptly threatened, and the whole industry was unsettled by the prospect of an era of extremely severe competition.

This threatened competition should be regarded particularly from two standpoints—first, it meant an enormous enlargement of productive capacity, and one which would apparently exceed the normal consuming power of the country for a long time to come, and, second, it meant the breaking down of the extremely profitable quasi-monopolies already established in particular products of the industry, such as wire, tubes, tin plate, and sheets. Both considerations obviously threatened to reduce profits in the steel industry to a decidedly lower level.

In the year 1900 the prospective loss of business for the great steel-producing companies, accompanied by a slackened activity in the trade, developed an exceedingly acute situation. The Federal Steel Company prepared to take up the manufacture of several lines of finished products, namely, structural material, universal plates, and tubes. In the summer of the same year it was reported that the Carnegie Company would go into the manufacture of wire rods on an extensive scale, thus "invading" the territory of the secondary group. This action was generally regarded as

a blow at the American Steel and Wire Company, which had just threatened to erect additional blast furnaces and a large steel plant. Reports of further important plans of the Carnegie Company for extending its lines of production of finished products were current during the year 1900, and early in 1901 the definite announcement was made that the company was about to take up the manufacture of steel tubes in a new plant of enormous capacity, to be constructed at Conneaut Harbor, Ohio. This announcement, moreover, was made in such a way that it could be interpreted only as a declaration on the part of the Carnegie interests that they did not propose to submit idly to the loss of tonnage threatened by the plans of some of the larger consolidations making finished products, which previously had been among their largest customers. . . .

This unmistakable evidence of an aggressive policy of retaliation on the part of the Carnegie concern, accompanied as it was by the important extensions into the manufacture of finished articles announced by the Federal Steel Company, revealed sharply the trend of the existing conditions, and naturally had a very disquieting effect in the trade and in financial circles. Both the trade journals and the financial press were filled with articles to the effect that a "battle of the giants" in the steel industry was at hand.

In such a contest it was apparent to all that the Carnegie Company, while likely at first to lose some business, might be expected in the long run to maintain, and even to increase, its dominating position in the industry. Its long established business, the modern character of its plants, its efficient technical and commercial organization, as well as its strong financial position, made it easily superior to any of its competitors. It had a distinct advantage in all these respects over even the Federal Steel Company, which was its largest rival, but whose plants were for the most part less modern and also widely separated geographically. There was no question that if the Carnegie Company, with its unlimited means and efficient organization, went into the manufacture of wire, tubes, sheets, or tin plate it would be more than able to hold its own against the respective large consolidations which produced those products, and which in their efforts to monopolize the business had been constrained to include in their respective organizations many plants of inferior character.

THE FINANCIAL SITUATION.—This unsettled trade situation was aggravated because of the importance which the securities of several of these steel concerns had assumed in the stock market. A period of violent competition in the steel industry

would inevitably have been followed by a great decline in the value of these securities. A still more important matter was that the financial backers of some of these steel concerns had extensive commitments in other directions, which might be jeopardized by such an acute struggle in the steel industry. From the standpoint of these financiers, therefore, the situation presented at once a great danger and a great opportunity.

From a financial point of view there were four important steel groups, which were more or less distinct, namely, the Morgan group, the Moore group, and the Carnegie and the Rockefeller interests.

The Morgan group, which included the Federal Steel, National Tube, and American Bridge companies, enjoyed of course the advantage of a strong financial support, but these financial interests were extensively committed in other lines of business, especially in railroad financiering. They naturally would be especially concerned in preventing the outbreak of the threatened competition in the steel business. It may be noted that there were reports at this time that the Carnegie interests were contemplating the construction of a railroad from Pittsburg to the Atlantic seaboard. This threat, if made good, would have created an extremely disturbing factor in the trunk-line situation.

The Moore concerns, already described, were the most heavily over-capitalized and suffered from a distinctly speculative backing.

The Carnegie interests had abundant capital and credit, and their securities did not figure on the stock market, while their organization and management were unequaled. They were apparently in the best position of any of these groups to meet a price war.

The Rockefeller interests were entirely concerned with the production and transportation of iron ore. Their financial resources were of course abundant for any emergency. Their stocks did not figure to any appreciable extent on the exchanges.

The American Steel and Wire Company apparently was not closely affiliated with any of the foregoing groups. Despite its great earnings, its position was vulnerable. It apparently had no especial banking support.

It is evident, therefore, that, both from the point of view of the iron and steel industry and that of the stock market, the threatened outbreak of violent competition between these rival interests involved serious consequences. It might have meant the sudden termination of the extraordinary period of speculative activity and profit. On the



other hand, an averting of this conflict by a merger of the various great consolidations, if successfully financed, would be a tremendous "bull" argument. It would afford its promoters an opportunity for enormous stock-market profits through the sale of its securities. The advantages to these interests, through the concentration of profits in different stages of the industry under a single control, would also be considerable, and there was undoubtedly some advantage to be gained through the further integration which such a consolidation would render possible.

It was clear to everyone that no consolidation of this sort could be made successful unless it included the Carnegie Company, which was the most powerful factor in the situation, which had long been noted for its aggressive tactics, and which, as above shown, had precipitated this crisis. Moreover, there can be little doubt that many interests in the steel industry regarded Mr. Carnegie's personal influence as a menace to their success, and desired to secure his retirement from the trade. At the same time the enormous earning power of the Carnegie concern would be an exceedingly important consideration both in the profits of the new company and also in facilitating the flotation of its securities.

The primary solution of the situation, therefore, from the standpoint of these interests, was to buy out Mr. Carnegie. Mr. Carnegie's well-known willingness to sell made the problem largely one of terms. Negotiations were promptly undertaken and speedily concluded by arranging to take over his large interest in his concern in exchange for bonds of the new consolidation. On March 2, 1901, announcement was made by J. P. Morgan & Co., as bankers, that arrangements had been completed for the organization of the United States Steel Corporation to acquire control of the following concerns: Carnegie Company (of New Jersey), Federal Steel Company, American Steel and Wire Company, National Tube Company, National Steel Company, American Tin Plate Company, American Steel Hoop Company, and American Sheet Steel Company.

The preliminary incorporation papers of the new company, under New Jersey laws, had already been taken out. The terms offered the constituent companies were speedily accepted by a great majority of the stockholders of these concerns, and, on April 1, 1901, within a very few weeks after the first serious intimation that negotiations were under way the United States Steel Corporation was definitely launched and in actual operation. The authorized capital stock was \$1,100,000,000, equally divided between preferred

and common shares. In addition there was a bond issue of \$304,000,000 (exclusive of underlying indebtedness aggregating approximately \$81,000,000, this including sundry mortgages and purchase-money obligations). About \$425,000,000 of each class of stock and all of the bonds were issued for the companies named and for other purposes. Very soon after its organization the Corporation made three further important acquisitions, namely, the Lake Superior Consolidated Iron Mines, the Bessemer Steamship Company, and the American Bridge Company. It also acquired a one-sixth interest in the Oliver Iron Mining Company and the Pittsburg Steamship Company, the other five-sixths having been secured in the purchase of the Carnegie Company. During the following summer it purchased the Shelby Steel Tube Company. As a result of these acquisitions its issue of stock was increased to over \$500,000,000 of each class, giving it an issued capitalization in stock alone of more than \$1,000,000,000.

Thus, the threatened conflict in the steel industry was averted, while, as shown later, an unprecedented profit was reaped by the organization syndicate.

#### ESSENTIAL CHARACTER OF THE STEEL CORPORATION IN 1901

The United States Steel Corporation, by including in its organization both of the first two groups of companies described, insured to itself on the one hand an abundant capacity for the production of crude steel and a large proportion of the country's output of heavy rolled products, and, on the other hand, secured control of several quasi-monopolistic concerns manufacturing particular lines of the more elaborated products, such as sheets, tin plate, tubes, and wire. The abundant steel-making capacity of the first group made it easy, of course, to supply all the steel required by this second group of concerns. Furthermore, while the companies in the first group taken together were very well fortified with reserves of raw materials, the acquisition of the Lake Superior Consolidated Iron Mines furnished an enormous additional supply and gave to the Corporation an exceptional degree of strength in this respect. It also contributed to the combination one of the most important railroads in the Lake ore region.

The position taken by the Steel Corporation is that this great aggregation of property was in the main an assembling and coordination of different branches in the industry, the primary object of which was to secure greater efficiency and integration, and, of course, the saving of the payment of profits to others. The Corporation contends

that most of its constituent concerns were not in actual competition with one another, and it is disposed to minimize the restriction of competition brought about as a result of this great merger. . . .

These possible economies of consolidation, however, probably were a subordinate consideration in the formation of the Steel Corporation except those of a commercial character, i. e., those that did away with the necessity of paying a profit to somebody else on the raw materials or transportation of raw materials. The possibilities of real manufacturing economies could be but slowly realized in most cases, and, as already stated, the controlling motive in the organization of the company was to avert the competitive struggle then threatened. Meanwhile, however, the argument of economy and increased earning power was used to justify the formation of the combination, and also to facilitate the flotation of its securities.

The crude-steel (ingot) capacity of the Corporation at its organization was fully 9,400,000 tons, this representing substantially 66 per cent of the total for the country, while its capacity for the various finished products which it manufactured was approximately 7,700,000 tons, this representing about 50 per cent of the total of the country for these lines. In certain products, however, the Corporation's percentage approached a complete monopoly. Its larger percentage of crude than of finished steel is explained by the fact that some of the principal steel-making concerns did not have finishing mills for more than a portion of their output.

Roughly speaking, it may be said that the Corporation at its organization secured control of three-fifths of the steel business of the country. Its proportion of the pig-iron business was somewhat smaller, about 44 per cent, its actual capacity of this product being about 7,400,000 tons. These figures, however, do not fairly state the position of the Corporation, because of the large production by outsiders of foundry pig iron and certain

special kinds of pig iron which really did not involve competition with the Corporation. The Corporation's share of the production of pig iron for strictly steel-making purposes was probably not less than 58 per cent.

The Corporation had hundreds of millions of tons of desirable Lake ore in reserves, over 50,000 acres of the choicest coking-coal lands, over 1,000 miles of railroad, exclusive of subsidiary trackage, a fleet of 112 Lake steamers and barges, not to mention large investments in docks, natural-gas and limestone properties, and other kindred branches of the industry.

Despite its enormous size the United States Steel Corporation did not secure a monopoly of the iron and steel industry as a whole, although its position in several branches was monopolistic (that is, tending toward monopoly). In the case of a few products, such as tin plate, sheets, wire, and nails, its control was at first very nearly complete, but in other branches of the industry it had a number of important rivals from the start. Thus, it will be seen that the Corporation did not include such concerns as the Pennsylvania Steel Company, the Cambria Steel Company, the Lackawanna Iron and Steel Company, Jones & Laughlins (Ltd.), the Bethlehem Steel Company, the Republic Iron and Steel Company, and the Colorado Fuel and Iron Company, not to mention several others of magnitude. At the start, moreover, the Corporation did not acquire the Tennessee Coal, Iron and Railroad Company, that concern not being taken over until 1907. . . .

#### COMPARISON OF VALUATIONS OF STEEL CORPORATION'S PROPERTY IN 1901 WITH ITS CAPITALIZATION

The Bureau's valuations of the Steel Corporation's property in 1901, arrived at by these different methods, may now be compared with its outstanding capitalization at that time. This is done in the following table:

#### COMPARISON OF ESTIMATES OF VALUE OF PROPERTY OF UNITED STATES STEEL CORPORATION AT ITS ORGANIZATION IN 1901, WITH PAR VALUE OF ITS SECURITIES

		Excess of securities over estimates
Total capitalization in April, 1901, including underlying bonds and purchase-money obligations .....	\$1,402,846,817 <sup>a</sup>	
Investment in tangible property alone, indicated by historical analysis .....	676,000,000	\$726,846,817
Value of all property, tangible and intangible, as indicated by market prices of securities of constituent concerns .....	793,000,000	609,846,817
Value of tangible property as estimated by departments of the business .....	682,000,000	720,846,817

<sup>a</sup> Excluding \$535,407 unacquired stock in constituent concerns for which no corresponding deduction was made in the first and third estimates.

It will be seen at once that the securities issued by the Steel Corporation very greatly exceeded the indicated value of the property acquired, as established by any one of the three methods of valuation. The valuation of the tangible property arrived at by historical study, as well as that by departments of the business, shows an excess of capitalization greater than the indicated value itself. The valuation by departments, namely, \$682,000,000, shows an excess of nearly \$721,000,000. Even taking the indicated market value of the securities of the subsidiary concerns, namely, \$793,000,000, which valuation includes the public estimate for intangible considerations as well as physical property, the excess of the Steel Corporation's capitalization was still over \$609,000,000. Naturally the valuation arrived at by this method exceeded those obtained in the other two cases. . . .

#### OVERCAPITALIZATION INDICATED BY ENORMOUS COMMISSION TO UNDERWRITING SYNDICATE

Very convincing evidence of a ruling tendency toward excessive capitalization is afforded by the enormous payment the Steel Corporation allowed its underwriting syndicate. This syndicate, as shown elsewhere, provided the Corporation with \$25,000,000 of cash capital and also incurred expenses of about \$3,000,000 either in buying scattered parcels of stock or otherwise, making its total cash expenditure \$28,000,000. For this cash consideration, plus its underwriting services, the syndicate received from the Steel Corporation the enormous total of practically 1,300,000 shares of its stock (half preferred and half common) of an aggregate par value of practically \$130,000,000. This stock appears to have realized approximately

\$90,500,000 (counting \$4,000,000 unsold preferred stock at par), leaving as profit to the syndicate, over and above the \$28,000,000 cash expenditure noted, a net sum of about \$62,500,000. Of this, one-fifth, or \$12,500,000, went to the syndicate managers for their services as such, the remaining \$50,000,000 being distributed to the syndicate members. . . .

This extravagant compensation to the underwriting syndicate may fairly be cited as further evidence of a general disposition toward excessive issue of securities.

This huge commission, it should be noted, followed very liberal commissions allowed at earlier dates to the promoters of several of the various constituent companies. Assuming that of the total of, roughly, \$65,000,000 par value each of preferred and common stock allowed the Steel Corporation underwriting syndicate, \$28,000,000 of each class (a common basis of compensation in such cases) was for the cash consideration noted, there would be left as a commission alone \$37,000,000 par value of each class, or a total of \$74,000,000 par value. Adding to this the amounts allowed for similar commissions in the case of constituent companies at the dates of their respective organizations, and taking into account that the stock so issued by constituent companies received the same terms of exchange from the Steel Corporation as other stock of the same class, it would appear that of the Steel Corporation's stock in 1901 at least \$150,000,000 (this including over \$40,000,000 of the preferred) was issued either directly or indirectly for such promotion or underwriting services, this being over and above the enormous amounts of common stock issued as a bonus for property and for cash.

## THE PUJO COMMITTEE

NEW YORK STATE'S investigation of the insurance business in 1905, the revelations of muck-rakers like Thomas Lawson, the panic of 1907, and the capture of the lower House of Congress by the Democrats in 1910, all contributed to congressional readiness to investigate the concentration of the control of money and credit in the United States. A subcommittee of the House Committee on Banking and Currency was appointed to make the inquiry. Its labors produced four large volumes of testimony and a report which was popularly

known as the Pujo Committee Report after its chairman, Congressman Pujo of Louisiana. A good deal of the effectiveness of the report—and not a little of its sensational character—was owing to the skillful examination of frequently reluctant witnesses by the committee's counsel, Samuel Untermyer of New York.

According to the majority members of the Committee, the testimony proved that there existed an identity and community of interest between a few leaders of finance, particularly those in the investment banking business.

They controlled money and credit through voting trusts and interlocking directorates. Their domination over banks, trust companies, and insurance companies gave them a control over other people's money and credit which, to the Committee, was even more serious than concentration of control in industry.

Notable among the observations of the Committee are its remarks on the effects of the spreading ownership of securities and the activities of the securities affiliates of national banks. Scattered stockholders were increasingly helpless against management and promoters; the diffusion of stock ownership tended to concentrate rather than spread economic power. The securities affiliates, identical with the banks in ownership and control, had been organized to do what the law forbade national banks to do on their own account. The affiliates engaged in underwriting and speculation and gave bank directors the opportunity to play the market with the bank's deposits.

The Committee recommended the abolition of voting trusts and interlocking directorates

among national banks; the comptroller of the currency should have a veto on mergers of such institutions. Further, national banks should be forbidden to have securities affiliates, to act as the fiscal agents of corporations, or to engage in securities underwriting. Financial transactions between banks and their directors should be forbidden and the ban enforced by checking the financial activities of bank directors. The minority interest in a corporation should be protected by some plan for cumulative voting, moreover, and the Interstate Commerce Commission should be given the right to supervise all schemes for the reorganization of railroads.

Some of these proposals were embodied in the Clayton Act of 1914 and the Transportation Act of 1920; but the separation of securities affiliates and national banks did not take place until the passage of the Banking Act of 1933. And by the 1930s, in fact, the power of the great investment houses was largely spent. The Pujo Committee report was printed as House Document No. 504, 62d Congress, 2d Session (Washington, 1913).

## *Report on Concentration of Control of Money and Credit*

BY THE PUJO COMMITTEE

### SECTION 1.—TWO KINDS OF CONCENTRATION

IT IS IMPORTANT at the outset to distinguish between concentration of the *volume of money* in the three central reserve cities of the national banking system—New York, Chicago, and St. Louis—and concentration of *control* of this volume of money and consequently of credit into fewer and fewer hands. They are very different things. An increasing proportion of the banking resources of the country might be concentrating at a given point at the same time that *control* of such resources at that point was spreading out in a wider circle.

Concentration of *control* of money, and consequently of credit, more particularly in the city of New York, is the subject of this inquiry. With concentration of the *volume* of money at certain points, sometimes attributed, so far as it is unnatural, to the provision of the national-banking act permitting banks in the 47 other reserve cities to deposit with those in the three central reserve

cities half of their reserves, we are not here directly concerned.

Whether under a different currency system the resources in our banks would be greater or less is comparatively immaterial if they continued to be controlled by a small group. We therefore regard the argument presented to us to show that the growth of concentration of the volume of resources in the banks of New York City has been at a rate slightly less than in the rest of the country, if that be the fact, as not involved in our inquiry. It should be observed in this connection, however, that the concentration of control of credit is by no means confined to New York City, so that the argument is inapplicable also in this respect.

### SECTION 2.—FACT OF INCREASING CONCENTRATION ADMITTED

The resources of the banks and trust companies of the city of New York in 1911 were \$5,121,245,-

175, which is 21.73 per cent of the total banking resources of the country as reported to the Comptroller of the Currency. This takes no account of the unknown resources of the great private banking houses whose affiliations to the New York financial institutions we are about to discuss.

That in recent years concentration of control of the banking resources and consequently of credit by the group to which we will refer has grown apace in the city of New York is defended by some witnesses and regretted by others, but acknowledged by all to be a fact.

As appears from statistics compiled by accountants for the committee, in 1911, of the total resources of the banks and trust companies in New York City, the 20 largest held 42.97 per cent; in 1906, the 20 largest held 38.24 per cent of the total; in 1901, 34.97 per cent.

#### SECTION 3.—PROCESSES OF CONCENTRATION

This increased concentration of control of money and credit has been effected principally as follows:

First, through consolidations of competitive or potentially competitive banks and trust companies, which consolidations in turn have recently been brought under sympathetic management.

Second, through the same powerful interests becoming large stockholders in potentially competitive banks and trust companies. This is the simplest way of acquiring control, but since it requires the largest investment of capital, it is the least used, although the recent investments in that direction for that apparent purpose amount to tens of millions of dollars in present market values.

Third, through the confederation of potentially competitive banks and trust companies by means of the system of interlocking directorates.

Fourth, through the influence which the more powerful banking houses, banks, and trust companies have secured in the management of insurance companies, railroads, producing and trading corporations, and public utility corporations, by means of stockholdings, voting trusts, fiscal agency contracts, or representation upon their boards of directors, or through supplying the money requirements of railway, industrial, and public utilities corporations and thereby being enabled to participate in the determination of their financial and business policies.

Fifth, through partnership or joint account arrangements between a few of the leading banking houses, banks, and trust companies in the purchase of security issues of the great interstate corporations, accompanied by understandings of re-

cent growth—sometimes called "banking ethics"—which have had the effect of effectually destroying competition between such banking houses, banks, and trust companies in the struggle for business or in the purchase and sale of large issues of such securities.

#### SECTION 4.—AGENTS OF CONCENTRATION

It is a fair deduction from the testimony that the most active agents in forwarding and bringing about the concentration of control of money and credit through one or another of the processes above described have been and are—

J. P. Morgan & Co.

First National Bank of New York.

National City Bank of New York.

Lee, Higginson & Co., of Boston and New York.

Kidder, Peabody & Co., of Boston and New York.

Kuhn, Loeb & Co.

We shall describe,

First, the members of this group separately, showing the part of each in the general movement and the ramifications of its influence;

Second, the interrelations of members of the group; and

Third, their combined influence in the financial and commercial life of the country as expressed in the greater banks, trust companies and insurance companies, transportation systems, producing and trading corporations, and public utility corporations.

#### SECTION 5.—J. P. MORGAN & CO

*Organization.*—J. P. Morgan & Co. of New York and Drexel & Co. of Philadelphia are one and the same firm, composed of 11 members: J. P. Morgan, E. T. Stotesbury, Charles Steele, J. P. Morgan, jr., Henry P. Davison, Arthur E. Newbold, William P. Hamilton, William H. Porter, Thomas W. Lamont, Horatio G. Lloyd, and Temple Bowdoin. George W. Perkins was a member from 1902 until January 1, 1911. As a firm, it is a partner in the London banking house of J. S. Morgan & Co. and the Paris house of Morgan, Harjes & Co.

*General character of business.*—It accepts deposits and pays interest thereon and does a general banking business. It is a large lender of money on the New York Stock Exchange. More especially it acts as a so-called issuing house for securities; that is, as purchaser or underwriter or fiscal agent, it takes from the greater corporations their issues of securities and finds a market for them either amongst other banking houses, banks and trust companies, or insurance companies, or the general public.

*Resources, deposits, and profits.*—Neither the resources and profits of the firm nor its sources of profit have been disclosed. Nor has your committee been able to ascertain its revenues from private purchases or sales of the securities of interstate corporations, nor from such of them as it controls under voting trusts, exclusive fiscal agency agreements, or other arrangements or influences, nor the identity of the banks, trust companies, life insurance companies, or other corporations that have participated in its security issues except where they were for joint account.

On November 1, 1912, it held deposits of \$162,491,819.65, of which \$81,968,421.47 was deposited by 78 interstate corporations on the directorates of 32 of which it was represented. The committee is unable to state the character of its affiliations, if any, with the 46 corporations on the directorates of which it is unrepresented by one or more members of the firm, as their identity was not disclosed.

*Security issues marketed.*—During the years 1902 to 1912, inclusive, the firm directly procured the public marketing of security issues of corporations amounting in round numbers to \$1,950,000,000, including only issues of interstate corporations. The volume of securities privately issued or marketed by it, and of intrastate corporations, does not appear. Nor is there information available of the extent to which they participated as underwriters in issues made by banks or banking houses other than those shown on the charts and lists in evidence. . . .

#### SEC. 11.—INTERRELATIONS OF MEMBERS OF THE GROUP

*Morgan & Co. and First National Bank.*—Mr. Morgan, head of the firm of Morgan & Co., of New York, and Drexel & Co., of Philadelphia, and Mr. Baker, head officer and dominant power in the First National Bank since shortly after its organization, have been close friends and business associates from almost the time they began business. . . .

Next to Mr. Baker, Morgan & Co., is the largest stockholder of the First National, owning 14,500 shares, making the combined holdings of Mr. Baker and his son and Morgan & Co. about 40,000 shares out of 100,000 outstanding—a joint investment, based on the market value, of \$41,000,000 in this one institution.

Three of the Morgan partners—Mr. Morgan himself, Mr. Davison, and Mr. Lamont—are directors of the First National, and Mr. Morgan is a member of the executive committee of four, which has not, however, been active and has rarely met.

The First National has been associated with Morgan & Co. in the control of the Bankers Trust Co. As before stated, when the company was organized, its entire capital stock was vested in George W. Perkins, H. P. Davison, and Daniel G. Reid as voting trustees. Mr. Perkins was then a Morgan partner and Mr. Davison and Mr. Reid were, respectively, vice president and a large stockholder of the First National. Mr. Davison, who has since become a Morgan partner, and Mr. Reid have continued as such trustees. Mr. Perkins has been succeeded by the attorney of the company, who is also Mr. Davison's personal counsel. Mr. Davison and Mr. Lamont, of the Morgan firm, and Mr. Hine, president, Mr. Norton, vice president, and Mr. Hepburn, member of the executive committee of the First National, are co-directors of the Bankers Trust Co., Mr. Hine being also a member of its executive committee.

The First National likewise has been associated with Morgan & Co. in the control of the Guaranty Trust Co., Mr. Baker of the former being joined with Mr. Davison and Mr. Porter of the latter as voting trustees.

In the Astor Trust Co., controlled by Morgan & Co. through the Bankers Trust Co., Mr. Baker and Mr. Hine, chief officers of the First National, are directors.

In the Liberty National Bank, controlled by Morgan & Co. through the Bankers Trust Co., Mr. Hine is also a director. . . .

But nothing demonstrates quite so clearly the close and continuing cooperation between Morgan & Co. and the First National Bank as their joint purchases and underwritings of corporate securities. Since 1903 they have purchased for their joint account, generally with other associates, 70 odd security issues of 30 different corporations, aggregating approximately \$1,080,000,000.

It is thus seen that through stockholdings, interlocking directors, partnership transactions, and other relations, Morgan & Co. and the First National Bank are locked together in a complete and enduring community of interest. Their relations in this regard are, indeed, a commonplace in the financial world. Thus, Mr. Schiff being asked whether he knew "the close relations between Messrs. Morgan and the First National Bank," replied "I do."

*Morgan & Co., First National Bank, and National City Bank.*—Mr. Stillman, as president, chairman of the board of directors and largest stockholder, for a long time has held a position of dominance in the National City Bank correspond-

ing to Mr. Morgan's in his firm and Mr. Baker's in the First National Bank.

For many years while Morgan & Co. and the First National Bank were in close business union the National City Bank apparently occupied a position of independence. More recently, however, it has been drawn into the community of interest long existing between the two first named, as is evidenced by a series of important transactions.

First. Within three or four years Morgan & Co. acquired \$1,500,000 par value of the capital stock of the National City Bank, representing an investment at the stock's present market price of \$6,000,000, and J. P. Morgan, jr., became a director.

Second. In 1910 Mr. Morgan, in conjunction with both Mr. Baker, his long-time associate, and Mr. Stillman, head of the National City Bank, purchased from Mr. Ryan and the Harriman estate \$51,000, par value, of the stock of the Equitable Life Assurance Society, paying therefor what Mr. Ryan originally paid with interest at 5 per cent—about \$3,000,000—the investment yielding less than one-eighth of 1 per cent. Mr. Stillman and Mr. Baker each agreed to take a one-fourth interest in the purchase if requested to do so by Mr. Morgan. No such request has yet been made by him.

No sufficient reason has been given for this transaction, nor does any suggest itself, unless it was the desire of these gentlemen to control the investment of the \$504,000,000 of assets of this company, or the disposition of the bank and trust company stocks which it held and was compelled by law to sell within a stated time. . . .

Third, about a year later Mr. Stillman and Mr. Baker, pursuant to an understanding between them and J. P. Morgan & Co., purchased approximately one-half of the holdings of the Mutual and Equitable Life insurance companies in the stock of the National Bank of Commerce, amounting altogether to some 42,200 shares. Mr. Baker being a member of the finance committee of the Mutual, it was arranged that he should purchase the Equitable's stock—about 15,250 shares—and Mr.

Stillman the Mutual's. Pursuant to the understanding, Mr. Stillman turned over 10,000 shares to Morgan & Co., who already owned 7,000 shares. Mr. Baker kept 5,000 shares, turned over 5,000 to the First Security Co., and distributed the rest among various persons; 3,000 shares were allotted by Mr. Stillman and Mr. Baker to Kuhn, Loeb & Co. . . .

The acquisition by Morgan & Co. of a large block of stock of the National City Bank with representation upon its board of directors, and the transactions that followed, in which those two institutions and the First National Bank were joined, as above set forth, show a unison of interest and a continuity of cooperation between the three, such as for many years previously had existed between two of them—Morgan & Co. and the First National.

*Combined power of Morgan & Co., the First National, and National City Banks.*—In earlier pages of the report the power of these three great banks was separately set forth. It is now appropriate to consider their combined power as one group.

First, as regards banking resources:

The resources of Morgan & Co. are unknown; its deposits are \$163,000,000. The resources of the First National Bank are \$150,000,000 and those of its appendage, the First Security Co., at a very low estimate, \$35,000,000. The resources of the National City Bank are \$274,000,000; those of its appendage, the National City Co., are unknown, though the capital of the latter is alone \$10,000,000. Thus, leaving out of account the very considerable part which is unknown, the institutions composing this group have resources of upward of \$632,000,000, aside from the vast individual resources of Messrs. Morgan, Baker and Stillman.

Further, as heretofore shown, the members of this group, through stock holdings, voting trusts, interlocking directorates, and other relations, have become in some cases the absolutely dominant factor, in others the most important single factor, in the control of the following banks and trust companies in the city of New York:

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(a) Bankers Trust Co., resources .....	\$205,000,000
(b) Guaranty Trust Co., resources .....	232,000,000
(c) Astor Trust Co., resources .....	27,000,000
(d) National Bank of Commerce, resources .....	190,000,000
(e) Liberty National Bank, resources .....	29,000,000
(f) Chase National Bank, resources .....	150,000,000
(g) Farmers Loan & Trust Co., resources .....	135,000,000
in all, 7, with total resources of .....	968,000,000

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which, added to the known resources of members of the group themselves, makes .. \$1,600,000,000 as the aggregate of known banking resources in the city of New York under their control or influence.

If there be added also the resources of the Equitable Life Assurance Society controlled through stock ownership of J. P. Morgan ..... 504,000,000  
the amount becomes ..... 2,104,000,000

Second, as regards the greater transportation systems.

(a) Adams Express Co.: Members of the group have two representatives in the directorate of this company.

(b) Anthracite-coal carriers: With the exception of the Pennsylvania and the Delaware & Hudson, the Reading, the Central of New Jersey (a majority of whose stock is owned by the Reading), the Lehigh Valley, the Delaware, Lackawanna & Western, the Erie (controlling the New York, Susquehanna & Western), and the New York, Ontario & Western, afford the only transportation outlets from the anthracite coal fields. As before stated, they transport 80 per cent of the output moving from the mines and own or control 88 per cent of the entire deposits. The Reading, as now organized, is the creation of a member of this banking group—Morgan & Co. One or more members of the group are stockholders in that system and have two representatives in its directorate; are stockholders of the Central of New Jersey and have four representatives in its directorate; are stockholders of the Lehigh Valley and have four representatives in its directorate; are stockholders of the Delaware, Lackawanna & Western and have nine representatives in its directorate; are stockholders of the Erie and have four representatives in its directorate; have two representatives in the directorate of the New York, Ontario & Western; and have purchased or marketed practically all security issues made by these railroads in recent years.

(c) Atchison, Topeka & Santa Fe Railway: One or more members of the group are stockholders and have two representatives in the directorate of the company; and since 1907 have purchased or procured the marketing of its security issues to the amount of \$107,244,000.

(d) Chesapeake & Ohio Railway: Members of the group have two directors in common with this company, and since 1907, in association with others, have purchased or procured the marketing of its security issues to the amount of \$85,000,000.

(e) Chicago Great Western Railway: Members of the group absolutely control this system through a voting trust.

(f) Chicago, Milwaukee & St. Paul Railway: Members of the group have three directors or officers in common with this company, and since 1909, in association with others, have purchased or procured the marketing of its security issues to the amount of \$112,000,000.

(g) Chicago & Northwestern Railway: Members of the group have three directors in common with this company, and since 1909, in association with others, have purchased or procured the marketing of its security issues to the amount of \$31,250,000.

(h) Chicago, Rock Island & Pacific Railway: Members of the group have four directors in common with this company.

(i) Great Northern Railway: One or more members of the group are stockholders of and have marketed the only issue of bonds made by this company.

(j) International Mercantile Marine Co.: A member of the group organized this company. is a stockholder, dominates it through a voting trust, and markets its securities.

(k) New York Central Lines: One or more members of the group are stockholders and have four representatives in the directorate of the company, and since 1907 have purchased from or marketed for it and its principal subsidiaries security issues to the extent of \$343,000,000, one member of the group being the company's sole fiscal agent.

(l) New York, New Haven & Hartford Railroad: One or more members of the group are stockholders and have three representatives in the directorate of the company, and since 1907 have purchased from or marketed for it and its principal subsidiaries security issues in excess of \$150,000,000, one member of the group being the company's sole fiscal agent.

(m) Northern Pacific Railway: One member of the group organized this company and is its fiscal agent, and one or more members are stockholders and have six representatives in its directorate and three in its executive committee.

(n) Southern Railway: Through a voting trust, members of the group have absolutely controlled this company since its reorganization in 1894.

(o) Southern Pacific Co.: Until its separation



from the Union Pacific, lately ordered by the Supreme Court of the United States, members of the group had three directors in common with this company.

(p) Union Pacific Railroad: Members of the group have three directors in common with this company.

Third, as regards the greater producing and trading corporations.

(a) Amalgamated Copper Co.: One member of the group took part in the organization of the company, still has one leading director in common with it, and markets its securities.

(b) American Can Co.: Members of the group have two directors in common with this company.

(c) J. I. Case Threshing Machine Co.: The president of one member of the group is a voting trustee of this company and the group also has one representative in its directorate and markets its securities.

(d) William Cramp Ship & Engine Building Co.: Members of the group absolutely control this company through a voting trust.

(e) General Electric Co.: A member of the group was one of the organizers of the company, is a stockholder, and has always had two representatives in its directorate, and markets its securities.

(f) International Harvester Co.: A member of the group organized the company, named its directorate and the chairman of its finance committee, directed its management through a voting trust, is a stockholder, and markets its securities.

(g) Lackawanna Steel Co.: Members of the group have four directors in common with the company and, with associates, marketed its last issue of securities.

(h) Pullman Co.: The group has two representatives, Mr. Morgan, and Mr. Baker, in the directorate of this company.

(i) United States Steel Corporation: A member of the group organized this company, named its directorate, and the chairman of its finance committee (which also has the powers of an executive committee) is its sole fiscal agent and a stockholder, and has always controlled its management.

Fourth, as regards the greater public utility corporations.

(a) American Telephone & Telegraph Co.: One or more members of the group are stockholders, have three representatives in its directorate, and since 1906, with other associates, have marketed for it and its subsidiaries security issues in excess of \$300,000,000.

(b) Chicago Elevated Railways: A member of the group has two officers or directors in common with the company, and in conjunction with others marketed for it in 1911 security issues amounting to \$66,000,000.

(c) Consolidated Gas Co. of New York: Members of the group control this company through majority representation on its directorate.

(d) Hudson & Manhattan Railroad: One or more members of the group marketed and have large interests in the securities of this company, though its debt is now being adjusted by Kuhn, Loeb & Co.

(e) Interborough Rapid Transit Co. of New York: A member of the group is the banker of this company, and the group has agreed to market its impending bond issue of \$170,000,000.

(f) Philadelphia Rapid Transit Co.: Members of the group have two representatives in the directorate of this company.

(g) Western Union Telegraph Co.: Members of the group have seven representatives in the directorate of this company.

*Summary of directorships held by these members of the group.*—Exhibit 134-B shows the combined directorships in the more important enterprises held by Morgan & Co., the First National Bank, the National City Bank and the Bankers and Guaranty Trust Cos., which latter two, as previously shown, are absolutely controlled by Morgan & Co. through voting trusts. It appears there that firm members or directors of these institutions together hold:

One hundred and eighteen directorships in 34 banks and trust companies having total resources of \$2,679,000,000 and total deposits of \$1,983,000,000.

Thirty directorships in 10 insurance companies having total assets of \$2,293,000,000.

One hundred and five directorships in 32 transportation systems having a total capitalization of \$11,784,000,000 and a total mileage (excluding express companies and steamship lines) of 150,200.

Sixty-three directorships in 24 producing and trading corporations having a total capitalization of \$3,339,000,000.

Twenty-five directorships in 12 public utility corporations having a total capitalization of \$2,150,000,000.

In all, 341 directorships in 112 corporations having aggregate resources or capitalization of \$22,245,000,000.

The members of the firm of J. P. Morgan & Co. hold 72 directorships in 47 of the greater corporations; George F. Baker, chairman of the board,

F. L. Hine, president, and George F. Baker, jr., and C. D. Norton, vice presidents, of the First National Bank of New York, hold 46 directorships in 37 of the greater corporations; and James Stillman, chairman of the board, Frank A. Vanderlip, president, and Samuel McRoberts, J. T. Talbert, W. A. Simonson, vice presidents, of the National City Bank of New York, hold 32 directorships in 26 of the greater corporations; making in all for these members of the group 150 directorships in 110 of the greater corporations.

We are not unmindful of the important and valuable part that the gentlemen who dominate this inner group and their allies have played in the development of our prosperity. There should be no disposition to hamper their activities if a situation can be brought about where their capital, prestige, and connections can be independently employed in free and open competition. Without the aid of their invaluable enterprise and initiative and their credit and financial power the money requirements of our vast ventures could not have been financed in the past, and much less so in the future.

It is also recognized that cooperation between them is frequently valuable, and often essential to the public interest as well as their own, in order to permit of the furnishing or guaranteeing of the requirements of our vast enterprises of the present day and of the still larger ones that are probably in store for us.

But these considerations do not involve their taking control of the resources of our financial institutions or of the savings of the people in our life insurance companies nor that they shall be able to levy tribute upon every large enterprise; nor that commercial credits or stock exchange markets and values shall wait upon their beck and call. Other countries finance enterprises quite as important as our own without employing these methods.

Far more dangerous than all that has happened to us in the past in the way of elimination of com-

petition in industry is the control of credit through the domination of these groups over our banks and industries. It means that there can be no hope of revived competition and no new ventures on a scale commensurate with the needs of modern commerce or that could live against existing combinations, without the consent of those who dominate these sources of credit. A banking house that has organized a great industrial or railway combination or that has offered its securities to the public, is represented on the board of directors and acts as its fiscal agent, thereby assumes a certain guardianship over that corporation. In the ratio in which that corporation succeeds or fails the prestige of the banking house and its capacity for absorbing and distributing future issues of securities is affected. If competition is threatened it is manifestly the duty of the bankers from their point of view of the protection of the stockholders, as distinguished from the standpoint of the public, to prevent it if possible. If they control the sources of credit they can furnish such protection. It is this element in the situation that unless checked is likely to do more to prevent the restoration of competition than all other conditions combined. This power standing between the trusts and the economic forces of competition is the factor most to be dreaded and guarded against by the advocates of revived competition. . . .

The acts of this inner group, as here described, have nevertheless been more destructive of competition than anything accomplished by the trusts, for they strike at the very vitals of potential competition in every industry that is under their protection, a condition which if permitted to continue, will render impossible all attempts to restore normal competitive conditions in the industrial world.

It accordingly behooves us to see to it that the bankers who require and are bidding for the money held by our banks, trust companies, and life insurance companies to use in their ventures are not permitted to control and utilize these funds as though they were their own.

## LABOR IN AMERICA

OLIVER WENDELL HOLMES

IN 1904, when New York State revised its code of factory legislation, the hours of work for bakers were set at not more than ten hours a day or sixty hours a week. A Utica bakery owner, sentenced to pay a \$50 fine for

a second violation of the law, brought the case before the Supreme Court on the constitutional issue.

The Court divided five to four, with two separate dissenting opinions, one by Justices

Harlan, White, and Day, the other, and more celebrated, by Justice Oliver Wendell Holmes (1841-1935). The majority opinion declared the right to make a contract was part of the "liberty" protected by the Fourteenth Amendment. That liberty included the prerogatives of purchasing and selling labor except as controlled by a legitimate exercise of the state's police power. Since a baker's work could not be shown to be unhealthful, there was no ground for restricting hours of labor in that trade; hence the New York law was an "unreasonable, unnecessary and arbitrary" exercise of the police power, and so void under the Federal Constitution.

Both dissenting opinions stressed the broad discretion of state legislatures. In borderline cases of the exercise of the police power, the balance of doubt must be resolved in the state's favor; the wisdom of legislative action is no concern of the Supreme Court. Turning to the realm of fact, the three dissenters argued jointly that baking was an unhealthful occupation. Most countries of Western Europe have the legal ten-hour day, and New York certainly could, in the interests of the bakers'

health, restrict their freedom to contract to work as long as they pleased. Finally, except in instances where the Federal Constitution has been violated "beyond all question," it is the duty of the Supreme Court to sustain state laws. The scope of the Fourteenth Amendment is being enlarged "far beyond its original purpose."

In his dissent, Holmes casts aside legal and factual detail to strike at the majority's major premise. Freedom of contract is not an absolute, it is a developing premise. The business of the Supreme Court is the interpretation of the law, not the canonization of social philosophies. And Holmes refers specifically to the Spencerian evolutionary doctrines which William Graham Sumner had succeeded in writing into American social attitudes a generation previously. It took still another generation before those attitudes came to be questioned seriously. After 1937, Holmes's famous dissents became the backbone of the American legal system, certainly as regards the relations between American legislatures and problems of social welfare.

The case and decision are reported in 198 United States 45 (April 17, 1905).

### *Dissenting Opinion in Lochner v. New York*

BY OLIVER WENDELL HOLMES

MR. JUSTICE HOLMES DISSENTING:

I regret sincerely that I am unable to agree with the judgment in this case, and that I think it my duty to express my dissent.

This case is decided upon an economic theory which a large part of the country does not entertain. If it were a question whether I agreed with that theory, I should desire to study it further and long before making up my mind. But I do not conceive that to be my duty, because I strongly believe that my agreement or disagreement has nothing to do with the right of a majority to embody their opinions in law. It is settled by various decisions of this court that state constitutions and state laws may regulate life in many ways which we as legislators might think as injudicious, or if you like as tyrannical, as this, and which, equally with this, interfere with the liberty to contract.

Sunday laws and usury laws are ancient examples. A more modern one is the prohibition of lotteries. The liberty of the citizen to do as he likes so long as he does not interfere with the liberty of others to do the same, which has been a shibboleth for some well-known writers, is interfered with by school laws, by the Postoffice, by every state or municipal institution which takes his money for purposes thought desirable, whether he likes it or not. The 14th Amendment does not enact Mr. Herbert Spencer's Social Statics. The other day we sustained the Massachusetts vaccination law. *Jacobson v. Massachusetts*, 197 U.S. 11, ante, 643, 25 Sup. Ct. Rep. 358. United States and state statutes and decisions cutting down the liberty to contract by way of combination are familiar to this court. *Northern Securities Co. v. United*

*States*, 193 U.S. 197, 48 L. ed. 679, 24 Sup. Ct. Rep. 436. Two years ago we upheld the prohibition of sales of stock on margins, or for future delivery, in the Constitution of California. *Otis v. Parker*, 187 U.S. 606, 47 L. ed. 323, 23 Sup. Ct. Rep. 168. The decision sustaining an eight-hour law for miners is still recent. *Holden v. Hardy*, 169 U.S. 366, 42 L. ed. 780, 18 Sup. Ct. Rep. 383. Some of these laws embody convictions or prejudices which judges are likely to share. Some may not. But a Constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relation of the citizen to the state or of *laissez faire*. It is made for people of fundamentally differing views, and the accident of our finding certain opinions natural and familiar, or novel, and even shocking, ought not to conclude our judgment upon the question whether statutes embodying them conflict with the Constitution of the United States.

General propositions do not decide concrete cases. The decision will depend on a judgment or

intuition more subtle than any articulate major premise. But I think that the proposition just stated, if it is accepted, will carry us far toward the end. Every opinion tends to become a law. I think that the word "liberty," in the 14th Amendment, is perverted when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair man necessarily would admit that the statute proposed would infringe fundamental principles as they have been understood by the traditions of our people and our law. It does not need research to show that no such sweeping condemnation can be passed upon the statute before us. A reasonable man might think it a proper measure on the score of health. Men whom I certainly could not pronounce unreasonable would uphold it as a first instalment of a general regulation of the hours of work. Whether in the latter aspect it would be open to the charge of inequality I think it unnecessary to discuss.

## SAMUEL GOMPERS

SAMUEL GOMPERS opposed Supreme Court decisions limiting the activities of organized labor. Yet his social attitude was so like that of the judges whose decisions he resented that the examples of his thinking printed here might have made part of the utterances of any "conservative" majority opinion of the Court.

Still, for all the similarity in phrase, the approach was subtly different. Conservatives opposed state intervention to protect labor because such intervention was in itself contrary to social truth, the philosophy of evolutionary *laissez faire*. Gompers opposed state action because government was in the hands of those essentially hostile to the aspirations of labor. Hence, protective legislation would end as strait-jacket legislation; it would hamper labor organization in its work and make the workman completely subject to his enemies, who controlled the state.

Such an attitude was natural to a man whose experience had been that of Samuel Gompers (1850-1924). His parents, who were Dutch Jews, left the Netherlands for England where

the elder Gompers practiced the cigarmaker's craft. The family came to American in 1863, when the Civil War was stimulating British emigration to the United States. In New York, Samuel Gompers turned to his father's trade, joined the Cigarmaker's Union, and helped organize the craft on militant trade union lines.

In 1881, Gompers was one of the leaders active in forming the Federation of Organized Trades and Labor Unions, when it became evident that membership in the Knights of Labor tended to restrict craft autonomy. In 1886, again under Gompers's leadership, the Federation was reformed into the American Federation of Labor. He became its president and except for a single year remained at the head of the A. F. of L. until his death.

Under Gompers, the A. F. of L. attempted to combine autonomy and union among the separate crafts. It insisted on the principle of a single union organization within each trade and avoided all political action except strenuous lobbying for particular measures. On the economic front, the A. F. of L. sought to organize the unorganized, pushed the campaign

for the union label, and fostered boycotts of firms unfair to union labor. By 1915, however, the use of most of labor's effective weapons had been denied by the courts. The boycott was outlawed; strikes were regularly broken by the injunction; and labor had been declared a commodity within the meaning of the Anti-Trust law of 1890.

Government had shown itself hostile to labor, then, but labor's remedy was not to make government friendly through the elective process or by working for socialism. Labor, Gompers argued to the day of his death, must remain faithful to the philosophy of "voluntarism." It must fight for freedom to organize, to strike, and to make collective agreements with employers. Free unions would raise wages and improve workers' liv-

ing standards. No program of social insurance could do as much. Such a program, like proposals for compulsory arbitration, was a real threat to labor's freedom. Once the camel of government intervention thrust its nose inside the tent flap, free, independent, and voluntary trade unionism was doomed.

It was not until the nineteen thirties that the A. F. of L. indicated its willingness to accept government intervention. Even so, it never sought alliance with a political party, as was the case of its great rival, the Congress of Industrial Organizations.

The two selections reprinted here are from *The American Federationist*, the official organ of the A. F. of L. The first appeared in the February, 1915, issue; the second in the issue of January, 1917.

## *Two Editorials from the American Federationist*

BY SAMUEL GOMPERS

### I. SELF-HELP IS THE BEST HELP

WHITHER are we drifting?

There is a strange spirit abroad in these times. The whole people is hugging the delusion that law is a panacea. Whatever the ill or the wrong or the ideal, immediately follows the suggestion—enact a law. . . .

Whether as a result of laziness or incompetency there is a steadily growing disposition to shift responsibility for personal progress and welfare to outside agencies.

What can be the result of this tendency but the softening of the moral fibre of the people? When there is unwillingness to accept responsibility for one's life and for making the most of it there is a loss of strong, red-blooded, rugged independence and will power to grapple with the wrong of the world and to establish justice through the volition of those concerned.

Many of the things for which many are now deludedly demanding legislative regulation should and must be worked out by those concerned. Initiative, aggressive conviction, enlightened self-interest, are the characteristics that must be dominant among the people if the nation is to make substantial progress toward better living and higher ideals. Legislation can not secure these characteristics but it can facilitate or impede them.

Laws can not create and superimpose the ideals sought, they can only free people from the shackles and give them a chance to work out their own salvation.

Many conscientious and zealous persons think that every evil, every mistake, every unwise practice, can be straightway corrected by law.

There is among some critics of prevailing conditions a belief that legislation is a short-cut to securing any desired reform—merely enact a law and the thing is done.

Now enacting a law and securing the realization of the purpose the law is aimed to secure are two vastly different matters. Of the making of many laws there is apparently no end, for legislative and congressional mills yearly grind out thousands. But for the enforcement of these laws there is little effort unless enforcement is demanded by public opinion or by interested groups of citizens. As a rule the laws affect conditions and people little, and society is glad to escape with so little damage.

A law that really is a law, is a result of public thought and conviction and not a power to create thought or conviction. The enforcement of the law follows naturally because the people will it. To enact a law with the hope and for the purpose of educating the people is to proceed by indirection and to waste energy. It is better to begin work

for securing ideals by directing activity first for fundamentals. Frequently, when the people concerned become mindful and eager for what will promote their own welfare, they find that they are much more able to secure what will benefit and adapt their methods to changing circumstances than is any law or the administration of that law.

The virile spirit that has given our young nation a foremost place among the nations of the world is the spirit of aggressive initiative and independence, the ability of our people to grapple with hard problems and to solve them for their own benefit and for the benefit of the nation. We must not as a nation allow ourselves to drift upon a policy of excessive regulation by legislation—a policy that eats at and will surely undermine the very foundations of personal freedom.

These principles and facts apply to the working people, the organized wage earners, as fully and completely as to any other group or to the people as a whole. Labor seeks legislation from the hands of government for such purposes only as the individuals or groups of workers can not do for themselves, and for the freedom and the right to exercise their normal activities in the industrial and social struggle for the protection and promotion of their rights and interests and for the accomplishment of their highest and best ideals. Thus Labor asks legislation providing for the abolition of child labor; security and safety in life and work; sanitation in factory, shop, mill and home; workmen's compensation in preference to employers' liability; the regulation of convict labor and the like; the enactment of laws such as the proposed seamen's bill and the labor provisions of the Clayton law already enacted; the regulation of the issuance of injunctions and the trials of contempt cases; these latter work for freedom, for right, for justice. These reforms the workers and groups can not secure without law, because they are governmental functions and can not be accomplished by private agencies. In a word, the labor movement undertakes to secure from government, both state and nation, the enactment of laws for the accomplishment of such things as the working people can not secure or enforce for themselves.

We know no better way of illustrating this thought than by quoting the report we made to the Denver (1908) Convention, on economic power, as follows:

"The trade union movement, true to its history, its traditions and aspirations has done, is doing, and will undoubtedly do more in the interests of mankind to humanize the human family than all

other agencies combined. Devoting primarily our efforts to the membership of our organizations, yet there is not a declaration which we can make, or an action we can take for their protection and their advancement but which will have its correspondingly beneficent influence upon the unorganized workers and upon the masses of the people. Resistance to wage reductions by union workers is the check upon still further encroachments upon the unorganized. To secure an advance either in wages or to prevent a reduction of hours of labor by union workers is to bring these advantages correspondingly to the unorganized toilers. We can not obtain legislative enactment to protect the rights and interests of the organized, but that it must equally include all our people.

"Our movement is the barrier and check to aggression and tyranny on the one hand; on the other, it is the leaven for the common uplift of all. It is therefore that the economic power and influence of the labor movement is the most potent. We have exercised, and we shall continue to exercise, our political power; and that, too, without becoming politically partisan. We shall aim to select our law-making bodies, national, state, and municipal, men from the ranks of labor; men who are earnest, honest, intelligent, and sincerely devoted to the cause of the toilers and the people generally.

"In whatever form or shape the men of labor may exercise their energies and activities, in inception and result the effort is for the common uplift of all, though our political activities must of necessity be primarily devoted to acquire for our economic movement its freest and fullest natural development.

"Our movement has not asked and will not ask at the hands of government anything which the workers can and should do for themselves. The movement of labor is founded upon the principle that that which we do for ourselves, individually and collectively, is done best. It is therefore that the exercise by the workers of their economic power is after all the greatest and the most potent power which they can wield.

"The possession of great economic power does not imply its abuse, but rather its right use. Consciousness and possession of economic power bring with them responsibility, wisdom, and care in its exercise. These have made the labor movement of our country a tower of strength inspiring the confidence and respect of the masses of our workers as well as the sympathetic support of students, thinkers and liberty-loving people.

"The labor union movement as understood and

expressed by the American Federation of Labor is the historic struggle of the toilers; it has brought light and hope into the factory, the workshop, into the lives and homes of our workers; it has borne the brunt of battle and bears the honorable scars of past battles. It embodies Labor's hopes and aspirations for a brighter and a better day, not only for the future, but for today, tomorrow, and tomorrow's tomorrow, each a better day than the one which has gone before."

## 2. NOT EVEN COMPULSORY BENEVOLENCE WILL DO

During the month of December a National Conference on Social Insurance was held in Washington, D.C. The conference was arranged by the Federal Bureau of Labor Statistics of the Department of Labor. As the advocates of social insurance have of late pressed their theories upon public attention, this conference was of importance and interest. There were many viewpoints presented and many theories advanced. It was evident that there were represented two diametrically different groups of thinkers, those who were looking upon the problems of the wage-earners from the outside and viewing them with sympathetic concern and benevolent thought, and those who were looking upon the problems of wage-earners through the experience and eyes of wage-earners. The one group wanted to do something *for wage-earners* to relieve their suffering and need. The other group wanted to do something *for itself*, to solve its own problems and to establish itself in a position to take care of the emergencies of life.

After all had presented their thoughts and courses of action it was evident that the consensus of opinion was in favor of maintaining voluntary institutions. This fundamental fact stood out paramount, that social insurance can not remove or prevent poverty. It does not get at the causes of social injustice. The only agency that does get at the causes of poverty is the organized labor movement. Social insurance in its various phases of sickness insurance, unemployment insurance, death benefits, etc., only provides the means for tiding over an emergency. The labor movement aims at constructive results—higher wages, which mean better living for the worker and those dependent upon him; better homes, better clothing, better food, better opportunities and shorter hours of work, which mean relief from over-fatigue, time for recuperation, workers with better physical development and with sustained producing power. Better physical development is in itself an insurance against illness and a certain degree of unemployment. The short hour workmen with

higher wages become better citizens; better able to take care of themselves.

The real permanent benefits that come into the lives of the workers, those which are felt from day to day and not merely during times of special need, are brought about by the trade union movement. The trade union movement represents the organized economic power of the workers. Through the development, the organization and the exercise of this economic power the workers themselves establish higher standards of living and work. Although this economic power from the superficial standpoint seems indirect, it is in reality the most potent and the most direct social insurance the workers can establish. It is the only agency that really guarantees to them protection against the results of the eventualities of life and give them a feeling of security.

The trade union movement does not detract from the power or the opportunity of wage-earners. On the other hand, methods for providing social insurance delegate to outside authorities some of the powers and opportunities that formerly belonged to wage-earners. At first only a limited amount of authority and power may be delegated to the governmental agent, but the application of even that little power constitutes a limitation upon the rights and freedom of wage-earners and creates a situation which has in it the germs of tyranny and autocratic power.

Governmental power grows by what it feeds upon. Give an agency any political power and it at once tries to reach out after more. Its effectiveness depends upon increasing power. This has been demonstrated by the experience of the railroad workers in the enactment of the Adamson law. When Congress exercised the right to establish eight hours for railroad men it also considered a complete program for regulating railroad workers which culminated in taking from them the right to strike and the conscription act providing for compulsory service.

Compulsory social insurance can not be administered without exercising some control over wage-earners. This is the meat of the whole matter. Industrial freedom exists only when wage-earners have complete control over their labor power. To delegate control over their labor power to an outside agency takes away from the economic power of those wage-earners and creates another agency for power. Whoever has control of this new agency acquires some degree of control over the workers. There is nothing to guarantee control over that agency to the employed. It may also be controlled by employers. In other words, giving the government control over indus-

trial relations creates a fulcrum which means great power for an unknown user.

Compulsory social insurance is in its essence undemocratic. The first step in establishing social insurance is to divide people into two groups—those eligible for benefits and those considered capable to care for themselves. The division is based upon wage-earning capacity. This governmental regulation tends to fix the citizens of the country into classes, and a long established insurance system would tend to make these classes rigid.

There is in our country more voluntary social insurance than in any other country of the world.

We have institutions whereby voluntary insurance could be increased. It is true that in many of these institutions there are evils, but the cure for these evils is to make insurance companies organize for mutual benefit and to provide proper regulation and control, and in addition, if those who really have the welfare of wage-earners at heart will turn their activities and their influence toward securing for wage-earners the opportunity to organize, there will be no problems, no suffering and no need that will necessitate the consideration of benevolent assistance of a compulsory character.

## EUGENE V. DEBS

As GOMPERS represented conservative labor unionism and the I.W.W. spoke for the mass of the disinherited, so "Gene" Debs presented the socialist viewpoint to the voting workingman in the United States. Debs's part in the Pullman strike had made him known to all trade unionists, and when he accepted socialism and helped in the creation of the Socialist party in 1901, it was inevitable that he should become its leader.

Debs was no doctrinaire or theoretician, as these examples of his work clearly show. But he was a warmly human person filled with great compassion for his fellow men, and under his leadership the Socialist party grew in numbers and influence. It was at the height of

its career in 1912 when Debs, as his party's presidential candidate, received almost a million votes. From then on, decline set in—due to the party's rejection of American intervention in the first World War (when many intellectuals quit) and to the appearance of the Communists (whom the more militant among the Socialists joined).

The selections here reprinted are from *Debs: His Life, Writings and Speeches* (Chicago, 1908) and are published by permission of Charles H. Kerr and Company. "Revolution" appeared in the *New York Worker* of April 27, 1907; "The Socialist Party and the Working Class" was delivered at Indianapolis, Ind., on September 1, 1904.

## Two Speeches

BY EUGENE V. DEBS

### I. REVOLUTION

THIS IS THE FIRST and only International Labor Day. It belongs to the working class and is dedicated to the Revolution.

Today the slaves of all the world are taking a fresh breath in the long and weary march; pausing a moment to clear their lungs and shout for joy; celebrating in festal fellowship their coming Freedom.

All hail the Labor Day of May!  
The day of the proletarian protest;  
The day of stern resolve;  
The day of noble aspiration.

Raise high this day the blood-red Standard of the Revolution!

The banner of the Workingman;  
The flag, the only flag, of Freedom.

Slavery, even the most abject—dumb and despairing as it may seem—has yet its inspiration. Crushed it may be, but extinguished never. Chain the slave as you will, O Masters, brutalize him as you may, yet in his soul, though dead, he yearns for freedom still.

The great discovery the modern slaves have made is that they themselves their freedom must achieve. This is the secret of their solidarity; the



heart of their hope; the inspiration that nerves them all with sinews of steel.

They are still in bondage, but no longer cower;  
No longer grovel in the dust,  
But stand erect like men.

Conscious of their growing power the future holds out to them her outstretched hands.

As the slavery of the working class is international, so the movement for its emancipation.

The salutation of slave to slave this day is repeated in every human tongue as it goes ringing round the world.

The many millions are at last awakening. For countless ages they have suffered; drained to the dregs the bitter cup of misery and woe.

At last, at last the historic limitation has been reached, and soon a new sun will light the world.

Red is the life-tide of our common humanity and red our symbol of universal kinship.

Tyrants deny it; fear it; tremble with rage and terror when they behold it.

We reaffirm it and on this day pledge anew our fidelity—come life or death—to the blood-red Banner of the Revolution.

Socialist greetings this day to all our fellow-workers! To the god-like souls in Russia marching grimly, sublimely into the jaws of hell with the Song of the Revolution in their death-rattle; to the Orient, the Occident and all the Isles of the Sea!

VIVE LA REVOLUTION!

The most heroic word in all languages is REVOLUTION.

It thrills and vibrates; cheers and inspires. Tyrants and time-servers fear it, but the oppressed hail it with joy.

The throne trembles when this throbbing word is lisped, but to the hovel it is food for the famishing and hope for the victims of despair.

Let us glorify today the revolutions of the past and hail the Greater Revolution yet to come before Emancipation shall make all the days of the year May Days of peace and plenty for the sons and daughters of toil.

It was with Revolution as his theme that Mark Twain's soul drank deep from the fount of inspiration. His immortality will rest at last upon this royal tribute to the French Revolution:

"The ever memorable and blessed revolution, which swept a thousand years of villainy away in one swift tidal wave of blood—one: a settlement of that hoary debt in the proportion of half a drop of blood for each hogshhead of it that had been pressed by slow tortures out of that people in the

weary stretch of ten centuries of wrong and shame and misery the like of which was not to be mated but in hell. There were two Reigns of Terror, if we would but remember it and consider it: the one wrought murder in hot passion, the other in heartless cold blood; the one lasted mere months, the other lasted a thousand years; the one inflicted death on ten thousand persons, the other upon a hundred millions; but our shudders are all for the horrors of the minor Terror, so to speak; whereas, what is the horror of swift death by the axe compared with lifelong death from hunger, cold, insult, cruelty and heartbreak? What is swift death by lightning compared with death by slow fire at the stake? A city cemetery could contain the coffins filled by that brief Terror, which we have all been so diligently taught to shiver at and mourn over, but all France could hardly contain the coffins filled by that older and real Terror which none of us has been taught to see in its vastness or pity as it deserves."

## 2. THE SOCIALIST PARTY AND THE WORKING CLASS

MR. CHAIRMAN, CITIZENS AND COMRADES:

There has never been a free people, a civilized nation, a real republic on this earth. Human society has always consisted of masters and slaves, and the slaves have always been and are today, the foundation stones of the social fabric.

Wage-labor is but a name; wage-slavery is the fact.

The twenty-five millions of wage-workers in the United States are twenty-five millions of twentieth century slaves.

This is the plain meaning of what is known as  
THE LABOR MARKET

And the labor market follows the capitalist flag.

The most barbarous fact in all christendom is the labor market. The mere term sufficiently expresses the animalism of commercial civilization.

They who buy and they who sell in the labor market are alike dehumanized by the inhuman traffic in the brains and blood and bones of human beings.

The labor market is the foundation of so-called civilized society. Without these shambles, without this commerce in human life, this sacrifice of manhood and womanhood, this barter of babes, this sales of souls, the capitalist civilizations of all lands and all climes would crumble to ruin and perish from the earth.

Twenty-five millions of wage-slaves are bought and sold daily at prevailing prices in the American Labor Market.

This is the

## PARAMOUNT ISSUE

in the present national campaign.

Let me say at the very threshold of this discussion that the workers have but the one issue in this campaign, the overthrow of the capitalist system and the emancipation of the working class from wage-slavery.

The capitalists may have the tariff, finance, imperialism and other dust-covered and moth-eaten issues entirely to themselves.

The rattle of these relics no longer deceives workingmen whose heads are on their own shoulders.

They know by experience and observation that the gold standard, free silver, fiat money, protective tariff, free trade, imperialism and anti-imperialism all mean capitalist rule and wage-slavery.

Their eyes are open and they can see; their brains are in operation and they can think.

The very moment a workingman begins to do his own thinking he understands the paramount issue, parts company with the capitalist politician and falls in line with his own class on the political battlefield.

The political solidarity of the working class means the death of despotism, the birth of freedom, the sunrise of civilization.

Having said this much by way of introduction I will now enter upon the actualities of my theme.

## THE CLASS STRUGGLE

We are entering tonight upon a momentous campaign. The struggle for political supremacy is not between political parties merely, as appears upon the surface, but at bottom it is a life and death struggle between two hostile economic classes, the one the capitalist, and the other the working class.

The capitalist class is represented by the Republican, Democratic, Populist and Prohibition parties, all of which stand for private ownership of the means of production, and the triumph of any one of which will mean continued wage-slavery to the working class.

As the Populist and Prohibition sections of the capitalist party represent minority elements which propose to reform the capitalist system without disturbing wage-slavery, a vain and impossible task, they will be omitted from this discussion with all the credit due the rank and file for their good intentions.

The Republican and Democratic parties, or, to be more exact, the Republican-Democratic party, represent the capitalist class in the class struggle. They are the political wings of the capitalist sys-

tem and such differences as arise between them relate to spoils and not to principles.

With either of these parties in power one thing is always certain and that is that the capitalist class is in the saddle and the working class under the saddle.

Under the administration of both these parties the means of production are private property, production is carried forward for capitalist profit purely, markets are glutted and industry paralyzed, workingmen become tramps and criminals while injunctions, soldiers and riot guns are brought into action to preserve "law and order" in the chaotic carnival of capitalistic anarchy.

Deny it as may the cunning capitalists who are clear-sighted enough to perceive it, or ignore it as may the torpid workers who are too blind and unthinking to see it, the struggle in which we are engaged today is a class struggle, and as the toiling millions come to see and understand it and rally to the political standard of their class, they will drive all capitalist parties of whatever name into the same party, and the class struggle will then be so clearly revealed that the hosts of labor will find their true place in the conflict and strike the united and decisive blow that will destroy slavery and achieve their full and final emancipation.

In this struggle the workingmen and women and children are represented by the Socialist party and it is my privilege to address you in the name of that revolutionary and uncompromising party of the working class.

## ATTITUDE OF THE WORKERS

What shall be the attitude of the workers of the United States in the present campaign? What part shall they take in it? What party and what principles shall they support by their ballots? And why?

These are questions the importance of which are not sufficiently recognized by workingmen or they would not be the prey of parasites and the service tools of scheming politicians who use them only at election time to renew their masters' lease of power and perpetuate their own ignorance, poverty and shame.

In answering these questions I propose to be as frank and candid as plain-meaning words will allow, for I have but one object in this discussion and that object is not office, but the truth, and I shall state it as I see it, if I have to stand alone.

But I shall not stand alone, for the party that has my allegiance and may have my life, the Socialist party, the party of the working class, the party of emancipation, is made up of men and women who know their rights and scorn to com-

promise with their oppressors; who want no votes that can be bought and no support under any false pretense whatsoever.

The Socialist party stands squarely upon its proletarian principles and relies wholly upon the forces of industrial progress and the education of the working class.

The Socialist party buys no votes and promises no offices. Not a farthing is spent for whiskey or cigars. Every penny in the campaign fund is the voluntary offerings of workers and their sympathizers and every penny is used for education.

What other parties can say the same?

Ignorance alone stand in the way of socialist success. The capitalist parties understand this and use their resources to prevent the workers from seeing the light.

Intellectual darkness is essential to industrial slavery.

Capitalist parties stand for Slavery and Night.

The Socialist party is the herald of Freedom and Light.

Capitalist parties cunningly contrive to divide the workers upon dead issues.

The Socialist party is uniting them upon the living issue:

Death to Wage Slavery!

When industrial slavery is as dead as the issues of the Siamese capitalist parties the Socialist party will have fulfilled its mission and enriched history.

And now to our questions:

First, all workingmen and women owe it to themselves, their class and their country to take an active and intelligent interest in political affairs.

#### THE BALLOT

The ballot of united labor expresses the people's will and the people's will is the supreme law of a free nation.

The ballot means that labor is no longer dumb, that at last it has a voice, that it may be heard and if united shall be heeded.

Centuries of struggle and sacrifice were required to wrest this symbol of freedom from the mailed clutch of tyranny and place it in the hand of labor as the shield and lance of attack and defense.

The abuse and not the use of it is responsible for its evils.

The divided vote of labor is the abuse of the ballot and the penalty is slavery and death.

The united vote of those who toil and have not will vanquish those who have and toil not, and solve forever the problem of democracy.

#### THE HISTORIC STRUGGLE OF CLASSES

Since the race was young there have been class

struggles. In every state of society, ancient and modern, labor has been exploited, degraded and in subjection.

Civilization has done little for labor except to modify the forms of its exploitation.

Labor has always been the mudsill of the social fabric—is so now and will be until the class struggle ends in class extinction and free society.

Society has always been and is now built upon exploitation—the exploitation of a class—the working class, whether slaves, serfs or wage-laborers, and the exploited working class in subjection have always been, instinctively or consciously, in revolt against their oppressors.

Through all the centuries the enslaved toilers have moved slowly but surely toward their final freedom.

The call of the Socialist party is to the exploited class, the workers in all useful trades and professions, all honest occupations, from the most menial service to the highest skill, to rally beneath their own standard and put an end to the last of the barbarous class struggles by conquering the capitalist government, taking possession of the means of production and making them the common property of all, abolishing wage-slavery and establishing the co-operative commonwealth.

The first step in this direction is to sever all relations with

#### CAPITALIST PARTIES

They are precisely alike and I challenge their most discriminating partisans to tell them apart in relation to labor.

The Republican and Democratic parties are alike capitalist parties—differing only in being committed to different sets of capitalist interests—they have the same principles under varying colors, are equally corrupt and are one in their subservience to capital and their hostility to labor.

The ignorant workingman who supports either of these parties forges his own fetters and is the unconscious author of his own misery. He can and must be made to see and think and act with his fellows in supporting the party of his class and this work of education is the crowning virtue of the socialist movement. . . .

#### THE SOCIALIST PARTY

In what has been said of other parties I have tried to show why they should not be supported by the common people, least of all by workingmen, and I think I have shown clearly enough that such workers as do support them are guilty, consciously or unconsciously, of treason to their class. They are voting into power the enemies of

labor and are morally responsible for the crimes thus perpetrated upon their fellow-workers and sooner or later they will have to suffer the consequences of their miserable acts.

The Socialist party is not, and does not pretend to be, a capitalist party. It does not ask, nor does it expect the votes of the capitalist class. Such capitalists as do support it do so seeing the approaching doom of the capitalist system and with a full understanding that the Socialist party is not a capitalist party, nor a middle class party, but a revolutionary working class party, whose historic mission it is to conquer capitalism on the political battle-field, take control of government and through the public powers take possession of the means of wealth production, abolish wage-slavery and emancipate all workers and all humanity.

The people are as capable of achieving their industrial freedom as they were to secure their political liberty, and both are necessary to a free nation.

The capitalist system is no longer adapted to the needs of modern society. It is outgrown and fetters the forces of progress. Industrial and commercial competition are largely of the past. The handwriting blazes on the wall. Centralization and combination are the modern forces in industrial and commercial life. Competition is breaking down and co-operation is supplanting it.

The hand tools of early times are used no more. Mammoth machines have taken their places. A few thousand capitalists own them and many millions of workmen use them.

All the wealth the vast army of labor produces above its subsistence is taken by the machine owning capitalists, who also own the land and the mills, the factories, railroads and mines, the forests and fields and all other means of production and transportation.

Hence wealth and poverty, millionaires and beggars, castles and caves, luxury and squalor, painted parasites on the boulevard and painted poverty among the red lights.

Hence strikes, boycotts, riots, murder, suicide, insanity, prostitution on a fearful and increasing scale.

The capitalist parties can do nothing. They are a part, an iniquitous part, of the foul and decaying system.

There is no remedy for the ravages of death.

Capitalism is dying and its extremities are already decomposing. The blotches upon the surface show that the blood no longer circulates. The time is near when the cadaver will have to be removed and the atmosphere purified.

In contrast with the Republican and Democratic conventions, where politicians were the puppets of plutocrats, the convention of the Socialist party consisted of workmen and women fresh from their labors, strong, clean, wholesome, self-reliant, ready to do and dare for the cause of labor, the cause of humanity.

Proud indeed am I to have been chosen by such a body of men and women to bear aloft the proletarian standard in this campaign, and heartily do I endorse the clear and cogent platform of the party which appeals with increasing force and eloquence to the whole working class of the country.

To my associate upon the national ticket I give my hand with all my heart. Ben Hanford typifies the working class and fitly represents the historic mission and revolutionary character of the Socialist party.

#### CLOSING WORDS

These are stirring days for living men. The day of crisis is drawing near and Socialists are exerting all their power to prepare the people for it.

The old order of society can survive but little longer. Socialism is next in order. The swelling minority sounds warning of the impending change. Soon that minority will be the majority and then will come the co-operative commonwealth.

Every workman should rally to the standard of his class and hasten the full-orbed day of freedom.

Every progressive Democrat must find his way in our direction and if he will but free himself from prejudice and study the principles of Socialism he will soon be a sturdy supporter of our party.

Every sympathizer with labor, every friend of justice, every lover of humanity should support the Socialist party as the only party that is organized to abolish industrial slavery, the prolific source of the giant evils that afflict the people.

Who with a heart in his breast can look upon Colorado without keenly feeling the cruelties and crimes of capitalism! Repression will not help her. Brutality will only brutalize her. Private ownership and wage-slavery are the curse of Colorado. Only Socialism will save Colorado and the nation.

The overthrow of capitalism is the object of the Socialist party. It will not fuse with any other party and it would rather die than compromise.

The Socialist party comprehends the magnitude of its task and has the patience of preliminary defeat and the faith of ultimate victory.

The working class must be emancipated by the working class.

Woman must be given her true place in society by the working class.

Child labor must be abolished by the working class.

Society must be reconstructed by the working class.

The working class must be employed by the working class.

The fruits of labor must be enjoyed by the working class.

War, bloody war, must be ended by the working class.

These are the principles and objects of the Socialist party and we fearlessly proclaim them to our fellowmen.

We know our cause is just and that it must prevail.

With faith and hope and courage we hold our heads erect and with dauntless spirit marshal the working class for the march from Capitalism to Socialism, from Slavery to Freedom, from Barbarism to Civilization.

## VINCENT ST. JOHN

IN 1905, a group of labor representatives met at Chicago and organized the Industrial Workers of the World. Here gathered Socialists like Eugene V. Debs, delegates from A. F. of L. unions which were restive under their old-line leadership, and members of such dissident labor groups as the Western Federation of Miners. Among the many viewpoints—socialist, anarchist, industrial unionist—which made themselves vocal at the Chicago meeting, one element stood out as binding, a rejection of the A. F. of L.'s premise that organization on a craft basis was the foundation of a successful labor movement.

The following year, after the failure of a vigorous dual union campaign, schism split the new movement and the comparatively skilled workers represented by the dissident A. F. of L. unions withdrew. The Western Federation of Miners seceded in 1907; these were followed, in 1908, by the socialist groups led by Daniel De Leon. The I.W.W. now fell into its ultimate pattern, a propaganda organization working among unskilled and migratory workers with its greatest strength in the Far West. Freed of socialist doctrinaire dissenters and potential craft unionists, the I.W.W. passed into the control of what De Leon labeled the "Overall Brigade,"—men intensely suspicious of parties, parliamentarism, voting, craft unionism and leaders of all varieties, including their own.

The I.W.W. brought new methods into labor organizing. It rejected trade agreements,

refused to establish benefit programs that might transform it into a "coffin society," and devoted its energies to propaganda and organizing. The social philosophy behind that propaganda was never precisely formulated, though those who feared the movement talked forebodingly of "anarchism" and "syndicalism" and other threats to social stability. The fact is, its ideology took on aspects of both these radical movements.

I.W.W. aims and methods are described in the testimony of Vincent St. John, its general secretary, before the Commission on Industrial Relations which Congress had appointed to inquire into the condition of labor. Two years had passed since the Lawrence strike of 1912, when the I.W.W. led unorganized textile workers against a wage cut, to the accompaniment of violence, conflict with craft unions, the new technique of crowding local jails with men willing to suffer for exercising the right of free speech, and a flood of apprehensive publicity. The Lawrence strike had ended in an I.W.W. victory that brought a general wage increase in which the unskilled won the largest share. In its unorthodox fashion, the I.W.W. had shown the power latent in the unskilled and underemployed whom the craft unions had never attempted to organize.

Shortly after the publication of the Industrial Commission's report, there was another flare-up of I.W.W. activity in the West. The 1916 effort was not unsuccessful. The movement's opposition to the war led to its being

outlawed in many states through the passage of so-called criminal syndicalism laws. In 1919, I.W.W. leaders were tried for violation of the federal acts against seditious activity in wartime and when its general secretary, William D. Hayward, jumped his bail and fled to Soviet Russia, the backbone of the movement was broken. It continues to exist today but it

is not much more than a paper organization.

St. John's testimony is reprinted from the *Final Report and Testimony Submitted to Congress by the Commission on Industrial Relations* (15 vols., Washington, 1916). It appeared as Senate Document No. 415, 64th Congress, 1st Session.

### *Testimony Concerning the I.W.W. before the Commission on Industrial Relations*

BY VINCENT ST. JOHN

MR. THOMPSON. What are the purposes, general scope, and plan of the Industrial Workers of the World? Take your time and make your statement in regard to that.

MR. ST. JOHN. The primary purpose is the organization—to organize the working class on a class basis. That is, to organize and educate the workers with the understanding that the workers of this and every other country constitute a distinct and separate economic class in society, with interests that are distinct and separate from the employing class, as such, in society. That is, the organization divides society to-day into two broad classifications—the employing class on the one hand and the wageworking class on the other. The purpose of the organization is to organize and educate the wageworking class into a knowledge of economic position for the purpose of gaining requisite power in order to advance their interests, defend their interests, and advance them wherever possible, with the ultimate object of placing the control and operation of industries in which workers work into the hands and under the jurisdiction of the organized wageworkers of the country, so that the result of their efforts, the wealth produced by them and by their collective efforts, will accrue to those who are responsible for its creation without having to pay tribute to any employing class over any other parasitical class whatever. It is proposed to accomplish that by organizing the workers in such a manner that it will be possible for them, through their organization, to control their labor power, their brain and muscular energy that is used from day to day and year to year in the operation of industries, which to-day is a commodity sold on the labor market under the same rules, governed by the same conditions, that any other commodity is sold; and the Industrial Workers of the World propose that the wageworkers organize in such a manner that they

will control a sufficient amount of this commodity required to operate the industries so that they will be able to dictate the terms upon which it is used.

I think, for a general statement, that covers the matter, so far as I can go. . . .

CHAIRMAN WALSH. Now, after that union was formed the local unions were formed, and you had this national union, what means would you propose to see that those men get the profit of their own labor? What means would you adopt to see that these men so formed into a union would receive what I believe you said was the product of their toil and not divide it with anyone else?

MR. ST. JOHN. That would be impossible, so far as the railroad workers themselves were concerned. They could not accomplish that individually; that is, it would be impossible for the employees of the different railroad systems to arrange matters to that extent simply as the employees of the railway system, of the railway industry. The ultimate object of the organization would have to stand until such time as the organization in all of the industries reached the point that gave them the required power to attain that object. . . .

CHAIRMAN WALSH. Assuming, Mr. St. John, that you succeed in perfecting such an organization in the leading industries of the Nation, the large employers of labor, what steps would you then take to bring about the conditions that you mentioned in the statement of your general object, to wit, that the workers should have the product of their own labor and not give any proportion or divide it with the parasitical class or with the class of nonworkers?

MR. ST. JOHN. Well, when that stage arrives the organization will have gradually increased its control over the industries.

CHAIRMAN WALSH. How is that?

MR. ST. JOHN. I say when that stage arrives the

organization will have gradually increased its control and domination over industry to such an extent that they will be able to operate the industry and exchange the products through the medium of our own organization.

Chairman WALSH. At what point would you take in what you call the officials or the administrators?

Mr. ST. JOHN. Whenever we were strong enough to dominate them and know that they would work for our interest.

Chairman WALSH. Would your plan require a political action?

Mr. ST. JOHN. I don't know what you mean by political action.

Chairman WALSH. That is, would it require control of the legislative body of the Nation?

Mr. ST. JOHN. No, sir.

Chairman WALSH. Or of the various States, or a change in the organic law of the Nation, or constitutions of the various States?

Mr. ST. JOHN. None, whatever.

Chairman WALSH. That is all.

Mr. THOMPSON. I understand, Mr. St. John, from your answers to the chairman's questions, that what you have stated in reference to the program of your organization in regard to the production and distribution of wealth is a future program. That at present you are concerned with the organization of the workers to better their hours and their working condition and to increase their wages.

Mr. ST. JOHN. The organization, in order to represent the interests of the working class, must necessarily have a twofold function. It has to be able to handle the everyday problem of the workers, which is one of shorter hours, better wages, and improved shop conditions, and ultimately the education of the workers, so that they can assume control of industry. The fundamental purpose of the organization is to drill, have the workers drilled, and to educate themselves so that they can control industry; and as a training school or preparation for that task, the everyday struggle of the workers is the first struggle in front of the organization.

Mr. THOMPSON. Mr. St. John, what is the method of organization you pursue in any given industry, if you have such? . . .

Mr. ST. JOHN. You mean by that how we build up an organization—start it?

Mr. THOMPSON. Yes. Do you have any organized? Do you have any distinct plans, different from those of other labor organizations that are commonly understood and known?

Mr. ST. JOHN. Well, I think that is the general

proposition. All organization work is pretty much the same. The plan the I.W.W. follows is by organizers. For a local union in a given locality it carries on the organization work, through its members, through its membership, educational work, the distribution of leaflets, circulation of the papers of the organization, holding of public meetings in halls and on the streets, in front of factory gates, in fact any method by which the attention of the workers employed can be attracted; either carrying on agitation inside or outside of the factories.

Mr. THOMPSON. When as a result of such methods as you may use for basing an organization in a given city or factory, how do you present or make your demands to such factory, in reference to any subject which you take up? Do you have a shop organization?

Mr. ST. JOHN. We have a shop organization. If the local, if the industry in question has several different establishments in the same locality, the workers in the shops have meetings of their own wherein they take up the questions that they are interested in, with a view to the particular shop that they are working, and their demands or ideas are formulated into demands, and these different shops, branches, elect delegates who receive the report from the meetings of the shop branches; that is, the demands formulated for the different shops, and harmonize the whole. That is, they compile from the different demands a general set of demands, embracing whatever particular demands may apply to each shop or each establishment, either combined into a set of demands covering the entire district or the jurisdiction of that industry, or that industrial charter, or whatever it may be; and they are presented to whoever has the authority to receive them on the part of the employers.

Mr. THOMPSON. Who in the cases you have mentioned would present such demand on your organization?

Mr. ST. JOHN. The committee elected by the different branches of the workers involved.

Mr. THOMPSON. What, if any, arrangement does your organization countenance with the different factories that you may have an organization in?

Mr. ST. JOHN. We do not make any agreements for any stated length of time; but, as an example, if there was a—if the effort to gain better conditions resulted in a strike and this strike resulted in a victory for the workers involved, work would be resumed simply upon the representatives of the employer, the qualified representatives of the employer, saying that they agreed to the terms for which the workers were fighting, and a notice

posted in the mill to that effect. That is the extent of the effect of any agreement we enter into.

Mr. THOMPSON. Take a case, for instance, where there has been no strike, where your representatives meet with the firm, and an agreement is reached in reference to the several matters in dispute, have your representatives power to agree to any conditions, or hours, or wages for any given length of time, or are they to last for the day only?

Mr. St. JOHN. They do not agree upon a length of time. They do not have any power to agree to anything of the kind. All they have power to do is to report back to a meeting of the workers involved wherever they report and whatever their report is, and their report is either accepted or rejected. If it is rejected then the practice is simply to require that a notice be posted in the establishment stating that these conditions will govern.

Mr. THOMPSON. Assuming that, as a result of the conference of the representatives of your organization, the firm should agree to the demands of the men, but should attach to the agreement the conditions that such demands should be in existence and be the law between the two for the time of a year, is it the purpose of your organization to countenance or encourage the making of such agreements?

Mr. St. JOHN. No; on the contrary the organization is emphatically opposed to the entering into of any agreement for any stated length of time.

Mr. THOMPSON. Would the representatives of the workers under your plan of organization have the right to submit such a question to the mass meeting of the workers?

Mr. St. JOHN. They would not have the right, but if the question was put up to them they would be supposed to do so. They are not judges of what comes before the membership on matters of that kind.

Mr. THOMPSON. Then, suppose they submitted such a plan to the membership at a mass meeting and the membership unanimously voted for it, and such an agreement or arrangement was made on such a vote of the mass meeting, would your international organization or your general organization stand back of such an agreement?

Mr. St. JOHN. The possibilities are that the acceptance of any such agreement, any time agreement, on the part of any local connected with the I.W.W. would sever their connection. That has been the practice in the past.

Mr. THOMPSON. That is to say that the fundamental policy of your organization is this: That they do not countenance any time agreements, and that the making of time agreement automat-

ically severs the organization making it from your parent body?

Mr. St. JOHN. That has been the policy in the past; yes, sir.

Mr. THOMPSON. And consequently and naturally you would not encourage the carrying out of such an agreement? That goes without saying.

Mr. St. JOHN. Certainly not. . . .

Mr. THOMPSON. When demands are made by your organization on the factory or firm, and they are not acceded to, what are the general plans of your organization for enforcing such plans, if you have any?

Mr. St. JOHN. Well, we have no general plan, because the circumstances surrounding each particular case is what determines the plan of operation. The general plan might be stated as the withdrawing of the labor power from the establishment in question, or from the industry in question, in that locality, and if necessary from the industry in question throughout the country, in an effort to stop production in that manner. That is generally known as a strike. If circumstances were such as to prevent, such as to indicate that a strike would probably not give the results, would be inopportune, the conditions in the industry were not favorable, why, different methods would be resorted to; we would try to slow up the production in the factory; turn out poor work; in fact, interfere with the process of production so as to destroy the possible chance for revenue or profit accruing to the owners from that particular industry or mill.

Mr. THOMPSON. Is that what you call sabotage?

Mr. St. JOHN. That is what it is generally known as; yes, sir.

Mr. THOMPSON. How else do you carry that principle out? Say, when you are out on a strike and not in the mill, how would you carry that same principle out?

Mr. St. JOHN. We couldn't very well carry that principle out if we were out on a strike, excepting it would be to interfere with the products turned out in that particular mill, in transportation, or interfere with the raw material going into the mill. We would make an effort, if the organization was in shape, to control an influence sufficient with the isolated plant in question, so that no raw material or anything they use in the manufacture got very far.

Mr. THOMPSON. If, in carrying it out, it is necessary to destroy property, would your organization countenance that?

Mr. St. JOHN. If the destruction of property would gain the point for the workers involved, that is the only consideration we would give to it. The fact that property was destroyed would not



have anything to do with determining whether we adopted the plan or not.

Mr. THOMPSON. Then, the criterion of your action on a strike is whether or not the proposed action will gain the point of the strike?

Mr. St. JOHN. That is the only one.

Mr. THOMPSON. Would that same reasoning apply to questions of violence against persons?

Mr. St. JOHN. Certainly. . . .

Mr. THOMPSON. I wish you would explain the reasons why your organization would not make a time agreement, and why you countenance the destruction of property or the injury of persons in order to carry out any desired point as workmen?

Mr. St. JOHN. Well, in the matter of the time agreements, the entering into time agreements is of no value to the working class. It is of no value to that particular part of the working class who are directly involved in the agreement. It is, as a rule, a distinct—it places them at a disadvantage for the future period. In the first place, it is simply saying to the employer that on a certain date, after the lapse of a certain number of months, we are going to make a demand on you for increased wages or change in the working conditions. That is what it means to them. The consequence is that if he has any semblance of intelligence at all he prepares for it, and he has got a year's time to get ready for it. He makes up his stock ahead—his warehouse is piled with stock where he is dealing in goods that he can handle that way; and when the time comes and you make your demands, he has made arrangements so that he is able to get along without you. He places you at a disadvantage.

Another thing, it prevents the workers from taking advantage of any favorable opportunity that might arise during the term of this agreement, by which they could get better conditions. For instance, the market or demand for the commodities that were being produced might become lively, and the plant become rushed with orders, why, from that circumstance the worker has an advantage in making terms and demands. There is an added demand for the commodity they are selling—their labor power; and there is that added demand there, and they are in a more favorable position to force recognition for their claims and gain what they are after.

In addition to that, it destroys the active spirit in an organization to work under a contract period. The membership, as a rule, working under a time contract, as soon as the contract is signed and they are back to work, they lose everything except a mere passing interest in their organization;

and they think things are settled for the time being, and they do not need to bother until their contract is about to expire. Those are a few of the reasons; and as far as the destruction of property is concerned, the property is not ours. We haven't any interest at all in it; it is used simply—it is used to make the lot of the workers, as a class, harder; and the only property that we have, experience in the past has shown that the employers, as a class, are not at all particular whether they injure our property or not. They take us into the mills before we are able—before we have even the semblance of an education, and they grind up our vitality, brain and muscular energy into profits, and whenever we can not keep pace with the machine speeded to its highest notch, they turn us out onto the road to eke out an existence as best we can, or wind up on the poor farm or in the potter's field. And we think what is good for the working class—rather, what is good for the employing class is certainly good for us. And he has not shown any respect at all for our property, that it is not incumbent upon us to show any respect for his property; and we do not propose to do it; and we do not propose to make any bones about having that attitude clearly understood; that we are getting somewhat intelligent, and at least beginning to notice things. And the same holds true with regard to life and violence. Not that the Industrial Workers of the World are advocating the destruction of life to gain any particular point or the use of violence; because the destruction of life is not going to gain any point, and if life happens to be lost in strikes that we are implicated in, the blame generally, and has been up to date, on the other side. But we are not going to tell our membership to allow themselves to be shot down and beat up like cattle. Regardless of the fact that they are members of the working class, they still have a duty that they owe to themselves and their class of defending themselves whenever they are attacked and their life is threatened. Violence is not always the choosing of the working class; as a general rule, it is forced on them as a simple act of self-defense. They have to strike back when they are struck at, and that is the spirit and that is the idea the organization is trying to educate the workers into.

We do not—we do not want to be understood as saying that we expect to achieve our aims through violence and through the destruction of human life, because, in my judgment, that is impossible. The achievement of success—the success of this organization—the realization of what it is striving for—depends on one thing only, and that is gaining the control of a sufficient amount of

the labor power that is necessary in the operation of industry. Now, when we have that control, then through organization the necessity for violence will be reduced; in fact, it will almost disappear. It will disappear. The necessity for using any tactics that will lead to violence will disappear, and the protection and the safeguarding of human life will increase just in proportion as we have that control. And we will not only be able to take care of ourselves, and therefore it will become unnecessary for us to injure anybody else so far as life is concerned.

Mr. THOMPSON. In getting your control of an industry, Mr. St. John, do you—and in your advocacy of the method of gaining that control, do you tell your membership only to use force in case it is necessary for self-defense?

Mr. St. JOHN. We don't tell them anything of the kind. They are supposed to have sense enough to know that. If they did not have sense enough to know when to take care of themselves, no amount of telling on our part would do them any good.

Mr. THOMPSON. In other words, your general policy is that whatever violence is necessary to carry the point, and if violence will carry the point, they must use it to gain the point?

Mr. St. JOHN. Most assuredly; yes. . . .

Mr. THOMPSON. That is to say, if violence will bring the point that the workers want, then it is countenanced?

Mr. St. JOHN. Well, violence is not going to bring the point that the workers want except in rare instances.

Mr. THOMPSON. Take the case of workers filling the place of strikers, for instance. If your people believe that by committing acts of violence against the people who take the places, they would cause a determination of the struggle in favor of the strikers, then you would countenance such violence?

Mr. St. JOHN. Certainly.

Commissioner HARRIMAN. I would like to ask you, Mr. St. John, what was the underlying cause for the creation of your organization?

Mr. St. JOHN. Well, the organization came into existence mainly because of the lack of unity on the part of labor as it was and is organized today.

Commissioner LENNON. I wish the witness would face that way [indicating audience], and we could hear just as well.

Mr. St. JOHN. Strikes in different sections of the country were fought out and lost by the workers, not because they did not put up a good fight themselves, those that were directly involved—not because of the fact that the employers were in an advantageous position, but simply because that, in addition to fighting the employers who were solid as a unit on the proposition, they also had to contend against the assistance rendered to the employers by workers in the same industry or in other industries. The only show for the winning of a strike is stopping the production of the commodity that is being manufactured by the workers that are on strike, curtailing the profits of the corporation or the individual who has title to that establishment; and as long as he can transfer his work to other workers or operate his factories with scab labor and the products turned out by scab labor are distributed around the country by union men with union cards in their pockets, and the raw materials are furnished to the scab labor in this particular factory and pass through the hands of men with union cards in their pockets, the chances of any body of workers winning a strike in any important industry are reduced to a minimum, to say the least. And it was to overcome that state of affairs that the union has come into existence.

Commissioner HARRIMAN. Do you think that cooperation between employers and the wage-earning class is possible or impossible—peaceful cooperation?

Mr. St. JOHN. It is not possible except by a loss to the wage earners. It might be brought about, but the only ones that would gain by it would be the employers. The wage earners would be the ones to suffer.

Commissioner HARRIMAN. I would like to ask you what is the attitude of your organization toward the Government? . . .

Mr. St. JOHN. Well, they simply look on the Government as a committee employed to look after the interests of the employers. That is all the Government means to it. It is simply a committee employed to police the interests of the employing class. . . .

## THE NEW FREEDOM

### WOODROW WILSON

THE PRESIDENTIAL CAMPAIGN of 1912 bears witness to the political impact of a decade and a half of agitation, investigation, publicity, and reform. William Howard Taft, the Republican party candidate, carried the conservative label—though his administration had secured more progressive legislation than the more flamboyant regime it succeeded—while Theodore Roosevelt and Woodrow Wilson both put themselves down as progressives. Each advocated a carefully devised government program for dealing with the economic problems associated with the growth of great enterprises, and each insisted that he was the champion of the American people.

The Democratic candidate, Woodrow Wilson (1856-1914), was born in Virginia four years before the outbreak of the Civil War. His family was of Scotch-Irish origin and sufficiently prosperous to send their son to Princeton and the University of Virginia, where he studied law. The effort to build a practice in Atlanta proved uncongenial to a man of scholarly tastes, and Wilson decided to prepare for teaching, joining the group of brilliant pioneers in American graduate study who worked in Professor Herbert B. Adams's seminar at Johns Hopkins in the early eighties. *Congressional Government* won Wilson his degree, a reputation, calls to teach at Bryn Mawr and Wesleyan, and finally an appointment to the chair of political science at Princeton.

In 1902, Wilson was elected president of his university and set about reversing the trends which had transformed the rigors of the Princeton of Witherspoon and Ashbel Smith into the "rich man's club" of the nineties. For the next seven years, Wilson sought to establish higher academic standards and to eliminate some of the undemocratic practices among the undergraduates. Almost prophetically, what had begun as a dispute over principle became

a personal quarrel; and he was ultimately forced into a position that left him small choice but retirement.

Wilson's Princeton program had made him a symbol of the struggle to restore the people's rights; his defeat gave him the political glamor of martyrdom. To a New Jersey Democratic machine that saw victory likely in 1910, the ex-president of Princeton seemed to combine a vote-getting aura of liberalism and integrity with sufficient lack of experience in practical politics to assure the continuance of sound policy—maintaining New Jersey laws against pressure for reform was important to interests which had made the state notorious for laxity in granting corporate charters and firmness against such innovations as employers' liability.

The Democratic machine named Wilson its candidate for governor, accordingly. When he was elected, machine leaders learned that they had given power to a man who had in no way forgotten that he numbered Presbyterian ministers in both lines of his ancestry. As governor, Wilson showed many of the traits he was to give evidence of in higher office: he was stubbornly certain of his own rightness, fearless in defying machine rule, and ready to appeal to the people against slackness in legislators.

Two years as governor of New Jersey made Wilson a leader among contenders for the Democratic presidential nomination; his only serious rival was Champ Clark of Missouri. The Baltimore Convention, like that of 1908, was under William J. Bryan's control, though he had refused to be a candidate. Defeated for the post of temporary chairman, Bryan dictated the Democratic platform and all but ruled the convention from the floor. And, in the balloting for nominee, it was Bryan's influence which gave the vote of his delegation,

instructed for Clark, to Woodrow Wilson, and so made Wilson the presidential candidate. Bryan had switched when the New York delegation, led by Tammany Hall, went over to Clark on the tenth ballot; but forty-six ballots were taken before the convention gave Wilson the two-thirds vote then necessary to name a Democratic candidate.

Woodrow Wilson carried on a vigorous campaign. His speeches—largely reprinted in *The New Freedom* (1913)—not only present his own idea of reform but also reject that of his chief opponent, Theodore Roosevelt. The people must rule their economic life di-

rectly, Wilson argues, and not through the trusteeship of great enterprise. Monopoly never can be trusted, even under regulation, for what assurance is there that the regulators will act in the interest of the people? Regulation is not sufficient, therefore; competition must be restored. Only then can the creative middle class return to its true task and, with energies released, take up its appointed mission of enriching American life.

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## *The New Freedom*

BY WOODROW WILSON

### FREEMEN NEED NO GUARDIANS

THERE ARE TWO theories of government that have been contending with each other ever since government began. One of them is the theory which in America is associated with the name of a very great man, Alexander Hamilton. A great man, but, in my judgment, not a great American. He did not think in terms of American life. Hamilton believed that the only people who could understand government, and therefore the only people who were qualified to conduct it, were the men who had the biggest financial stake in the commercial and industrial enterprises of the country.

That theory, though few have now the hardihood to profess it openly, has been the working theory upon which our government has lately been conducted. It is astonishing how persistent it is. It is amazing how quickly the political party which had Lincoln for its first leader,—Lincoln, who not only denied, but in his own person so completely disproved the aristocratic theory,—it is amazing how quickly that party, founded on faith in the people, forgot the precepts of Lincoln and fell under the delusion that the "masses" needed the guardianship of "men of affairs."

For indeed, if you stop to think about it, nothing could be a greater departure from original Americanism, from faith in the ability of a confident, resourceful, and independent people, than the discouraging doctrine that somebody has got to provide prosperity for the rest of us. And yet that is exactly the doctrine on which the government of the United States has been conducted lately. Who have been consulted when important

measures of government, like tariff acts, and currency acts, and railroad acts, were under consideration? The people whom the tariff chiefly affects, the people for whom the currency is supposed to exist, the people who pay the duties and ride on the railroads? Oh no! What do they know about such matters. The gentlemen whose ideas have been sought are the big manufacturers, the bankers, and the heads of the great railroad combinations. The masters of the government of the United States are the combined capitalists and manufacturers of the United States. It is written over every intimate page of the records of Congress, it is written all through the history of conferences at the White House, that the suggestions of economic policy in this country have come from one source, not from many sources. The benevolent guardians, the kind-hearted trustees who have taken the troubles of government off our hands, have become so conspicuous that almost anybody can write out a list of them. They have become so conspicuous that their names are mentioned upon almost every political platform. The men who have undertaken the interesting job of taking care of us do not force us to requite them with anonymously directed gratitude. We know them by name. . . .

The government of the United States at present is a foster-child of the special interests. It is not allowed to have a will of its own. It is told at every move: "Don't do that; you will interfere with our prosperity." And when we ask, "Where is our prosperity lodged?" a certain group of gentlemen say, "With us." The government of the United

States in recent years has not been administered by the common people of the United States. You know just as well as I do,—it is not an indictment against anybody, it is a mere statement of the facts,—that the people have stood outside and looked on at their own government and that all they have had to determine in past years has been which crowd they would look on at; whether they would look on at this little group or that little group who had managed to get the control of affairs in its hands. Have you ever heard, for example, of any hearing before any great committee of the Congress in which the people of the country as a whole were represented, except it may be by the Congressmen themselves? The men who appear at those meetings in order to argue for or against a schedule in the tariff, for this measure or against that measure, are men who represent special interests. They may represent them very honestly, they may intend no wrong to their fellow-citizens, but they are speaking from the point of view always of a small portion of the population. I have sometimes wondered why men, particularly men of means, men who didn't have to work for their living, shouldn't constitute themselves attorneys for the people, and every time a hearing is held before a committee of Congress should not go and ask: "Gentlemen, in considering these things suppose you consider the whole country? Suppose you consider the citizens of the United States?" . . .

I am one of those who absolutely reject the trustee theory, the guardianship theory. I have never found a man who knew how to take care of me, and, reasoning from that point out, I conjecture that there isn't any man who knows how to take care of all the people of the United States. I suspect that the people of the United States understand their own interests better than any group of men in the confines of the country understand them. The men who are sweating blood to get their foothold in the world of endeavor understand the conditions of business in the United States very much better than the men who have arrived and are at the top. They know what the thing is that they are struggling against. They know how difficult it is to start a new enterprise. They know how far they have to search for credit that will put them upon an even footing with the men who have already built up industry in this country. They know that somewhere, by somebody, the development of industry is being controlled.

I do not say this with the slightest desire to create any prejudice against wealth; on the contrary, I should be ashamed of myself if I excited

class feeling of any kind. But I do mean to suggest this: That the wealth of the country has, in recent years, come from particular sources; it has come from those sources which have built up monopoly. Its point of view is a special point of view. It is the point of view of those men who do not wish that the people should determine their own affairs, because they do not believe that the people's judgment is sound. They want to be commissioned to take care of the United States and of the people of the United States, because they believe that they, better than anybody else, understand the interests of the United States. I do not challenge their character; I challenge their point of view. We cannot afford to be governed as we have been governed in the last generation, by men who occupy so narrow, so prejudiced, so limited a point of view.

The government of our country cannot be lodged in any special class. The policy of a great nation cannot be tied up with any particular set of interests. I want to say, again and again, that my arguments do not touch the character of the men to whom I am opposed. I believe that the very wealthy men who have got their money by certain kinds of corporate enterprise have closed in their horizon, and that they do not see and do not understand the rank and file of the people. It is for that reason that I want to break up the little coterie that has determined what the government of the nation should do. . . .

I believe, as I believe in nothing else, in the average integrity and the average intelligence of the American people, and I do not believe that the intelligence of America can be put into commission anywhere. I do not believe that there is any group of men of any kind to whom we can afford to give that kind of trusteeship.

I will not live under trustees if I can help it. No group of men less than the majority has a right to tell me how I have got to live in America. I will submit to the majority, because I have been trained to do it,—though I may sometimes have my private opinion even of the majority. I do not care how wise, how patriotic, the trustees may be, I have never heard of any group of men in whose hands I am willing to lodge the liberties of America in trust.

If any part of our people want to be wards, if they want to have guardians put over them, if they want to be taken care of, if they want to be children, patronized by the government, why, I am sorry, because it will sap the manhood of America. But I don't believe they do. I believe they want to stand on the firm foundation of law and right and take care of themselves. I, for my part, don't

want to belong to a nation, I believe that I do not belong to a nation, that needs to be taken care of by guardians. I want to belong to a nation, and I am proud that I do belong to a nation, that knows how to take care of itself. If I thought that the American people were reckless, were ignorant, were vindictive, I might shrink from putting the government into their hands. But the beauty of democracy is that when you are reckless you destroy your own established conditions of life; when you are vindictive, you wreak vengeance upon yourself; the whole stability of a democratic polity rests upon the fact that every interest is every man's interest. . . .

In a former generation, half a century ago, there were a great many men associated with the government whose patriotism we are not privileged to deny nor to question, who intended to serve the people, but had become so saturated with the point of view of a governing class that it was impossible for them to see America as the people of America themselves saw it. Then there arose that interesting figure, the immortal figure of the great Lincoln, who stood up declaring that the politicians, the men who had governed this country, did not see from the point of view of the people. When I think of that tall, gaunt figure rising in Illinois, I have a picture of a man free, unentangled, unassociated with the governing influences of the country, ready to see things with an open eye, to see them steadily, to see them whole, to see them as the men he rubbed shoulders with and associated with saw them. What the country needed in 1860 was a leader who understood and represented the thought of the whole people, as contrasted with that of a class which imagined itself the guardian of the country's welfare.

Now, likewise, the trouble with our present political condition is that we need some man who has not been associated with the governing classes and the governing influences of this country to stand up and speak for us; we need to hear a voice from the outside calling upon the American people to assert again their rights and prerogatives in the possession of their own government. . . .

Do our masters of industry speak in the spirit and interest even of those whom they employ? When men ask me what I think about the labor question and laboring men, I feel that I am being asked what I know about the vast majority of the people, and I feel as if I were being asked to separate myself, as belonging to a particular class, from that great body of my fellow-citizens who sustain and conduct the enterprises of the country. Until we get away from that point of view it

will be impossible to have a free government.

I have listened to some very honest and eloquent orators whose sentiments were noteworthy for this: that when they spoke of the people, they were not thinking of themselves; they were thinking of somebody whom they were commissioned to take care of. They were always planning to do things *for* the American people, and I have seen them visibly shiver when it was suggested that they arrange to have something done by the people for themselves. They said, "What do they know about it?" I always feel like replying, "What do *you* know about it? You know your own interest, but who has told you our interests, and what do you know about them?" For the business of every leader of government is to hear what the nation is saying and to know what the nation is enduring. It is not his business to judge *for* the nation, but to judge *through* the nation as its spokesman and voice. I do not believe that this country could have safely allowed a continuation of the policy of the men who have viewed affairs in any other light.

The hypothesis under which we have been ruled is that of government through a board of trustees, through a selected number of the big business men of the country who know a lot that the rest of us do not know, and who take it for granted that our ignorance would wreck the prosperity of the country. The idea of the Presidents we have recently had has been that they were Presidents of a National Board of Trustees. That is not my idea. I have been president of one board of trustees, and I do not care to have another on my hands. I want to be President of the people of the United States. There was many a time when I was president of the board of trustees of a university when the undergraduates knew more than the trustees did; and it has been in my thought ever since that if I could have dealt directly with the people who constituted Princeton University I could have carried it forward much faster than I could dealing with a board of trustees. . . .

I tell you the men I am interested in are the men who, under the conditions we have had, never had their voices heard, who never got a line in the newspapers, who never got a moment on the platform, who never had access to the ears of Governors or Presidents or of anybody who was responsible for the conduct of public affairs, but who went silently and patiently to their work every day carrying the burden of the world. How are they to be understood by the masters of finance, if only the masters of finance are consulted?

That is what I mean when I say, "Bring the government back to the people." I do not mean

anything demagogic; I do not mean to talk as if we wanted a great mass of men to rush in and destroy something. That is not the idea. I want the people to come in and take possession of their own premises; for I hold that the government belongs to the people, and that they have a right to that intimate access to it which will determine every turn of its policy.

America is never going to submit to guardianship. America is never going to choose thralldom instead of freedom. Look what there is to decide! There is the tariff question. Can the tariff question be decided in favor of the people, so long as the monopolies are the chief counselors at Washington? There is the currency question. Are we going to settle the currency question so long as the government listens only to the counsel of those who command the banking situation?

Then there is the question of conservation. What is our fear about conservation? The hands that are being stretched out to monopolize our forests, to prevent or pre-empt the use of our great power-producing streams; the hands that are

being stretched into the bowels of the earth to take possession of the great riches that lie hidden in Alaska and elsewhere in the incomparable domain of the United States, are the hands of monopoly. Are these men to continue to stand at the elbow of government and tell us how we are to save ourselves,—from themselves? You cannot settle the question of conservation while monopoly is close to the ears of those who govern. And the question of conservation is a great deal bigger than the question of saving our forests and our mineral resources and our waters; it is as big as the life and happiness and strength and elasticity and hope of our people.

There are tasks awaiting the government of the United States which it cannot perform until every pulse of that government beats in unison with the needs and the desires of the whole body of the American people. Shall we not give the people access of sympathy, access of authority, to the instrumentalities which are to be indispensable to their lives?

## THE NATIONAL MONETARY COMMISSION

THE DEFECTS of the National Banking Act of 1864 had been evident at every banking crisis from 1873 to 1907. But popular interest in financial reform had centered in efforts to secure cheaper money rather than in plans for revising the nation's banking and currency system. The panic of 1907, occurring after the United States had adopted the gold standard, prompted legislative measures to create a currency more responsive to business needs than that created by the National Banking Act. Those measures provided only for temporary emergency issues, however; further action was postponed until the National Monetary Commission should make its final report.

The Commission was duly appointed. It inquired into the banking systems of the principal nations of the world as well as into the shortcomings of the American scheme. In 1910, after considerable criticism of its delays, the Commission summarized the defects of the National Banking system as a guide to future legislation. For, even as supplemented

by the new emergency measures, the present system was inadequate.

So far, general agreement prevailed, but the law suggested by Senator Nelson W. Aldrich (1841-1915) of Rhode Island, who had been instrumental in establishing the Commission, won less acceptance. The Aldrich bill provided for a central bank, in the form of a reserve association controlled by the larger banks, which was to have no formal public representation beyond the Secretaries of Agriculture, Commerce and Labor, and the Treasury serving *ex officio*. In addition to issuing banknotes against a gold reserve of 33⅓ percent, this central bank was to rediscount commercial paper, provide a more elastic currency, and make use of the government funds now kept idle in the subtreasuries. The Aldrich bill's conservative sponsorship and the predominance of banker control in its provisions were not likely to win support in the insurgent year 1910. When the Wilson administration undertook to fulfill campaign pledges for banking reform, it proceeded from dif-



ferent premises and reached a markedly different end, though it did make use of some of the technical features of the Aldrich bill.

The selection here reprinted is from the

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## *Defects of the National Banking System*

BY THE NATIONAL MONETARY COMMISSION

... THE ACT of May 30, 1908, providing for the appointment of the National Monetary Commission was a direct consequence of the panic of 1907. We shall not attempt to recount the severe losses and misfortunes suffered by the American people of all classes as the result of this and similar crises. To seek for means to prevent the recurrence or to mitigate the severity of grave disasters of this character was, however, one of the primary purposes of its creation.

We have made a thorough study of the defects of our banking system, which were largely responsible for these disasters and have sought to provide effective remedies for these and other defects, in the legislation we propose.

The principal defects in our banking system we believe may be summarized as follows:

1. We have no provision for the concentration of the cash reserves of the banks and for their mobilization and use wherever needed in times of trouble. Experience has shown that the scattered cash reserves of our banks are inadequate for purposes of assistance or defense at such times.

2. Antiquated Federal and State laws restrict the use of bank reserves and prohibit the lending power of banks at times when, in the presence of unusual demands, reserves should be freely used and credit liberally extended to all deserving customers.

3. Our banks also lack adequate means available for use at any time to replenish their reserves or increase their loaning powers when necessary to meet normal or unusual demands.

4. Of our various forms of currency the bank-note issue is the only one which we might expect to respond to the changing needs of business by automatic expansion and contraction, but this issue is deprived of all such qualities by the fact that its volume is largely dependent upon the amount and price of United States bonds.

5. We lack means to insure such effective cooperation on the part of banks as is necessary to protect their own and the public interests in times of stress or crisis. There is no cooperation of any kind among banks outside the clearing-house cities. While clearing-house organizations of banks

have been able to render valuable services within a limited sphere for local communities, the lack of means to secure their cooperation or affiliation in broader fields makes it impossible to use these or similar local agencies to prevent panics or avert calamitous disturbances affecting the country at large. These organizations have, in fact, never been able to prevent the suspension of cash payments by financial institutions in their own localities in cases of emergency.

6. We have no effective agency covering the entire country which affords necessary facilities for making domestic exchanges between different localities and sections, or which can prevent disastrous disruption of all such exchanges in times of serious trouble.

7. We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world. In times of threatened trouble or of actual panic these questions, which involve the course of foreign exchange and the international movements of gold, are even more important to us from a national than from an international standpoint.

8. The lack of commercial paper of an established standard, issued for agricultural, industrial, and commercial purposes, available for investments by banks, leads to an unhealthy congestion of loanable funds in great centers and hinders the development of the productive forces of the country.

9. The narrow character of our discount market, with its limited range of safe and profitable investments for banks, results in sending the surplus money of all sections, in excess of reserves and local demands, to New York, where it is usually loaned out on call on Stock Exchange securities, tending to promote dangerous speculation and inevitably leading to injurious disturbances in reserves. This concentration of surplus money and available funds in New York imposes upon the managers of the banks of that city the vast responsibilities which are inherent in the control



of a large proportion of the banking resources of the country.

10. The absence of a broad discount market in our system, taken together with the restrictive treatment of reserves, creates at times when serious financial disturbances are anticipated a condition of dependence on the part of individual banks throughout the country, and at the same time places the farmers and others engaged in productive industries at a great disadvantage in securing the credit they require for the growth, retention, and distribution of their products.

11. There is a marked lack of equality in credit facilities between different sections of the country, reflected in less favored communities, in retarded development, and great disparity in rates of discount.

12. Our system lacks an agency whose influence can be made effective in securing greater uniformity, steadiness, and reasonableness of rates of discount in all parts of the country.

13. We have no effective agency that can surely provide adequate banking facilities for different regions promptly and on reasonable terms to meet the ordinary or unusual demands for credit or currency necessary for moving crops or for other legitimate purposes.

14. We have no power to enforce the adoption of uniform standards with regard to capital, reserves, examinations, and the character and publicity of reports of all banks in the different sections of the country.

15. We have no American banking institutions in foreign countries. The organization of such banks is necessary for the development of our foreign trade.

16. The provision that national banks shall not make loans upon real estate restricts their power to serve farmers and other borrowers in rural communities.

17. The provision of law under which the Government acts as custodian of its own funds results in irregular withdrawals of money from circulation and bank reserves in periods of excessive Government revenues, and in the return of these funds into circulation only in periods of deficient revenues. Recent efforts to modify the Independent Treasury system by a partial distribution of the public moneys among national banks have resulted, it is charged, in discrimination and favoritism in the treatment of different banks.

There is a general agreement among intelligent students of the subject that to remedy these and other defects it is necessary to provide a comprehensive reorganization of credit and a thorough reconstruction of our banking systems and meth-

ods. We submit herewith our recommendation providing for such reorganization in the form of a bill which, if enacted into law, will, we believe, accomplish these results.

It is proposed to incorporate the National Reserve Association of the United States with an authorized capital equal to 20 per cent of the capital of all subscribing banks, of which one-half shall be paid in and the remainder shall become a liability, subject to call under the provisions of section 3 of the bill. It is also provided that before the reserve association can commence business \$100,000,000 of capital must be paid in cash. All State banks and trust companies conforming to the provisions of the bill with reference to capitalization and reserves and all National banks are entitled to subscribe for stock and to become members of the association. Shares in the association are not transferable and can not be owned otherwise than by a subscribing bank or in any other than the proportion named.

It is proposed to group into local associations all subscribing banks located in contiguous territory. The local associations are to be organized into district associations, in each of which shall be located a branch of the National Reserve Association; and the district associations, which shall be so arranged as to include all the territory of the United States, are combined to form the National Reserve Association of the United States.

These several associations are analogous in their organization to our political divisions, into counties, States, and the United States. Each has distinctive functions quite unlike in their character and each has representative self-government. In the local association the individual bank is the voting unit. A majority of banks, without reference to their size or their holdings of stock in the reserve association, elect three-fifths of the directors, and a majority in stock interest elect two-fifths. This method of electing directors is, we believe, quite novel in corporate government. It is more democratic in form, with more liberal representation to minorities than any method in general use.

One of the principal functions of the local associations is to guarantee, upon application, the commercial paper of individual banks which may be offered to the branches for rediscount, as provided in section 27 of the bill. The local association may, and in most cases would, require from the bank making the application satisfactory security for the guaranty. Local associations are authorized in serious emergencies to guarantee the direct obligations of subscribing banks with adequate security, in accordance with the provisions of section 28 of

the bill. A local association may decline to give the guaranties provided for under either of these sections. Local associations may also, by vote of three-fourths of their board of directors and the approval of the National Reserve Association, as-

sume and exercise the powers and functions of clearing houses. They are required also to perform such services in facilitating domestic exchanges as, in the opinion of the National Reserve Association, the public interests may require. . . .

## CARTER GLASS

CARTER GLASS (1858-1946) of Virginia was the chairman of the House Banking and Currency Committee when the Democrats took control after their triumph in the elections of 1910. He began to give close study to the problem of the reorganization of the nation's banking system—paralleling the activities of the National Monetary Commission—and by 1913 had whipped into shape a measure called the Currency Bill. In his *Adventure in Constructive Finance* (1927), Glass tells in detail the political background and fortunes of his bill as it moved through both Houses of Congress and was debated by the country. It met with stubborn opposition: from the banking community, which was largely supporting the Aldrich plan of a central bank controlled by the private banking houses themselves; and from the agrarians, who had not yet lost their zest for fiat money. The fact is, the Senate wrote a measure of its own and Glass needed all his skill as a political leader and parliamentarian to win out. He pays tribute to Wilson, who came over to Glass's position, for Wilson's personal influence had much to do with overcoming a threatened attack on the Glass bill by a coalition of Republican

and Democratic conservatives in the Senate.

On December 22, 1913, Glass presented before the House the Conference report on the Currency bill. In this speech, reprinted here, Glass details the structure of the Federal Reserve System and defends the Conference Committee report against the attacks of agrarians and conservatives alike.

The Conference Committee report was passed by both Houses and the bill was signed by President Wilson on December 23, 1913. It is known not as the "Currency Bill" but the "Federal Reserve Act"; its title declared its purpose to be: "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." One of the great achievements of the Wilsonian New Freedom, the act created a banking mechanism that certainly was more sensitive to the country's banking and currency requirements than had been true of the old National Banking System.

Glass's speech is reprinted from the *Congressional Record*, December 22, 1913.

### *Speech on the Federal Reserve Act*

BY CARTER GLASS

MR. GLASS. Mr. Speaker, on the 18th day of last September this House, by a vote of 286 to 85, passed H.R. 7837, known as the currency bill. The conferees on the part of the House to reconcile the differences with the Senate now have the pleasure of reporting the bill back without one single fundamental alteration of its structure. . . .

#### FEDERAL RESERVE BOARD

The Senate amendment eliminated from membership on the Federal Reserve Board the Secretary of Agriculture and the Comptroller of the Currency. This action by the Senate reflected the deliberate opinion of the Democratic Party caucus

and apparently represented the unanimous conviction of the caucus and the Senate. The House conferees signified a willingness to yield with respect to the Secretary of Agriculture, but strenuously resisted the proposition to eliminate the Comptroller of the Currency. The conferees on the part of the Senate long persisted in the determination not to permit this official to hold membership on the Federal Reserve Board, but the House conferees, with equal pertinacity, insisted that the Comptroller of the Currency, already charged by law with the supervision and with a large power of control of the national banks of the country, was by virtue of his official duties peculiarly suited for membership on the board. The House conferees prevailed; so that the Federal Reserve Board will be composed of the Secretary of the Treasury, the Comptroller of the Currency, and five members to be appointed by the President for terms of 10 years each, instead of 6 years, as originally provided in the House bill, and with salaries of \$12,000 per annum, instead of \$10,000 per annum, as provided in the House bill.

#### NUMBER OF BANKS

Concerning the number of regional reserve banks to be established, the House bill, as you know, provided that there should not be less than 12, leaving subsequent increase in the number of banks to the judgment of the Federal Reserve Board. The Senate amended the bill in that particular so as to provide that the number of banks should not be less than 8 nor more than 12. On that point the House conferees yielded.

#### VOTING FOR DIRECTORS

In this connection, the House bill provided that the directors of classes A and B of the regional reserve banks—the first class peculiarly representative of the banking interest and the second class representative of the business community—should be selected from approved lists to be supplied by the stockholding banks. The Senate so amended this provision as to extend the field of choice, permitting the electors to vote for any individual in the regional reserve district. Regarding this as an utterly impracticable, if not interminable, process, the House conferees stood firm and the Senate yielded. The House accepted the Senate modification concerning a preferential ballot, so as to prevent the possibility of a tie vote for directors.

#### QUALIFICATIONS OF DIRECTORS

Concerning the qualification of directors of regional reserve banks, the House bill provided that directors of class B could not be officers, directors,

or employees of member banks. The Senate so amended the provision as to prohibit stockholders of member banks from being directors of class B in the regional reserve banks; but on this point the Senate receded.

#### CAPITALIZATION

The House bill provided that the capital of the regional reserve banks should be in amount equal to 20 per cent. of the capital of member banks, one-half to be paid in, and the other half subject to call, being in the nature of a double liability. The Senate so altered this provision as to provide that the aggregate capital of a regional reserve bank should be in amount equal to 6 per cent. of the capital and surplus of member banks. The House provision was based upon the theory that a bank's capital stock is less liable to variation than its surplus. Nevertheless, the House yielded on this point, not regarding it as at all vital. Indeed, the aggregate capital under the one provision will be approximately the same as that provided by the other plan. . . .

#### POWERS OF RESERVE BOARD

The powers of the Federal Reserve Board were in some minor particulars and in one or two material aspects altered by the Senate amendment, notably where the House authorized the Federal Reserve Board to compel one Federal reserve bank to rediscount the discounted paper of another Federal reserve bank under certain restrictions. Such authority could only be exercised in time of emergency and only by the affirmative action of five of the seven members of the Federal Reserve Board. The Senate amendment swept away every one of the restrictions imposed by the House bill and vested the Federal Reserve Board with plenary power to order the rediscount at its pleasure and by a majority vote. The House conferees insisted upon a restoration of the requirement that at least five members of the Federal Reserve Board must concur in the proposed action.

#### REDISCOUNTS

In the matter of rediscount operations the only material change made by the Senate amendment to the House bill relates to the time limit of certain agricultural credits. This, you will recall, was an item of the bill which provoked considerable controversy in the House Democratic caucus and in the House itself. In the judgment of some of us the difference is more apparent than real, and certainly more political than economic. The House bill, keeping constantly in view the capital purpose of establishing regional reserve banks with

quick and liquid assets, promptly and certainly responsive to the commercial, agricultural, and industrial requirements of the country, provided a 90-day maturity for paper subject to discount, making no discrimination whatsoever for or against the merchant, the manufacturer, or the farmer. The Senate amendment, in the case of agricultural credits, extended the period of maturity to six months. The House having reversed itself on this particular proposition and having instructed the House conferees to yield on the Senate amendment, the conferees acquiesced. . . .

#### RESERVES

In dealing with the reserve requirements, the Senate amendment to the House bill somewhat strengthened the reserve by advancing the minimum requirement from  $33\frac{1}{3}$  to 40 per cent. of gold or lawful money, prescribing a flat penalty of 1 per cent. on all impairment of the reserve behind the notes between 40 per cent. and  $32\frac{1}{2}$  per cent., and authorizing the Federal Reserve Board to assess a graduated tax of  $1\frac{1}{2}$  per cent. per annum upon each  $2\frac{1}{2}$  percent. or fraction thereof that such reserve falls below  $32\frac{1}{2}$  per cent.

The reserve requirement for individual banks was very materially reduced by the Senate amendment; indeed, it was loosened up to an alarming extent, making inflation dangerously probable. The Senate amendment did not require a dollar of reserve to be kept in the vaults of individual banks, but made it possible for every dollar of the reserve to be kept in the regional reserve banks, thus frustrating the purpose of the House to put a stop to the vicious practice of pyramiding reserves under which the tendency to inflation is always possible and inviting. The House conferees adjusted this point of difference not entirely to their satisfaction, but vastly to the betterment of the provision, so that while the reserve requirements as to individual banks are somewhat less exacting than they were in the House bill they are very much more exacting than they were in the Senate amendment to the House bill.

#### BOND REFUNDING

The Senate radically altered the bond provision of the House bill. The pivotal point of banking and currency reform in this country around which controversy has raged for a quarter of a century has been the rigid and inelastic nature of a currency based on Government bonds. The demand of the banker, the textbook writer, the business man, and other currency experts has been for the abrogation of the bond-secured currency system and the gradual substitution therefor of a currency

based on commercial assets and immediately responsive to business requirements. That has been the universal contention of all persons who have a clear comprehension of the question. It has been the declared policy of the Democratic Party for years, the declaration having appeared in specific terms in three of its recent national platforms. Nevertheless, the Senate in its wisdom radically altered that provision of the House bill so as to make an appreciable retirement of the bond-secured currency unlikely, if not impossible. The House conferees gained a measure of advantage by so modifying the Senate amendment as to make probable the retirement of at least \$300,000,000 of the bond-secured currency within a period of 20 years, and the possible retirement of \$500,000,000 of that currency, to be superseded by elastic Federal reserve currency, based upon a gold reserve and commercial assets, expanding and contracting automatically with the business requirements of the country.

#### NO CHARGE FOR EXCHANGE

One of the most important provisions of the currency bill passed by this House was that which sought to put an end to the flagrant abuse involved in excessive charges by banks throughout the country for collections and exchanges. The House bill provided that exchanges should be made at par and that charges for collections should not exceed the actual cost to the banks. This item of the bill, as most of you remember, was bitterly controverted in the Democratic caucus, and also in the House. Naturally thousands of banks deriving large profits from the practice of charging constructive interest upon checks in transit and very arbitrary charges for collections and for exchanges exhibited great distaste to this provision of the bill. They vigorously protested to members against the inclusion of this prohibition, and thus the effort to remove this tax burden upon the business of the country was contested with the utmost pertinacity. However, those of us in the House who sought to tear down these tollgates upon the highways of commerce prevailed. The fight was renewed in the Senate, and that body so modified the House provision as to leave it solely within the discretion of the Federal Reserve Board to diminish or abolish the evil complained of, as it might please. The House conferees declined to yield on this point. They insisted upon such a modification of the Senate amendment as will exact exchanges at par and restrict charges for collections to the actual cost of such transactions to the banks. In brief, as the bill now is reported to the House the banks cannot make exchange and collection charges a

source of profit; they cannot any longer charge constructive interest; they cannot exact a tax for a theoretical transfer of funds from point to point when no transfer is actually made, but only an entry on the books. They can no longer harass the commerce of the country nor penalize the business men of the Nation by an unjust tax. . . .

#### GOVERNMENT DEPOSITS

In the matter of Government deposits the House bill required that the regional reserve banks should be constituted fiscal agents of the United States Government and required the Secretary of the Treasury to deposit all of the current funds of the Government in these banks, omitting, of course, the Treasury trust funds. The Senate so altered this provision of the House bill as to make it optional with the Secretary of the Treasury to so deposit the Government funds and to place it within the discretion of that official to constitute the regional reserve banks fiscal agents of the United States Government. I have been unable to get any clear perception of the reason for this alteration of the House bill further than that I a little suspect that it was done for tactical purposes, perhaps to enable the Secretary of the Treasury to combat the schemes of intractable bankers, should there be such. The object of the framers of the House bill in making the provision mandatory instead of discretionary was to furnish the regional reserve banks with the idle funds of the Government as a basis for active business transactions, and at the same time to correct the unscientific and senseless process of withdrawing these funds from business channels and impounding them in the Treasury and sub-treasuries. It is scarcely thinkable that we shall ever have a Secretary of the Treasury who would not so exercise the discretion conferred upon him by the bill, as now reported, as to carry out the real purpose which the House had in view when it made this provision mandatory; hence, the House conferees reluctantly yielded the point about 3 o'clock this morning. . . .

#### THE NOTE ISSUES

The note provision of the House bill has been bitterly assailed, both in the other branch of Congress and by certain men of large experience and influence in banking. The president of the largest banking institution in the Western Hemisphere went all over the country recently, charging that the Federal reserve notes provided by the House bill and by the Senate amendment to the House bill, substantially now reported from the confer-

ence committee, constitute "fiat money." This charge was vehemently echoed, without investigation or reflection, as I am obliged to believe, in the other branch of Congress. Mr. Speaker, the characterization is not only inaccurate, is not only untrue, is not only amazing, but is positively wanton.

I have said in speeches elsewhere what I shall now repeat here. There is not in this country and there has never been in any country of the civilized world a government issue or a bank-note issue comparable in security to the Federal reserve notes provided by the bill which you are now asked to enact into law. [Applause.]

#### NOT AN ELEMENT OF FIATISM

Fiat money! Why, sir, never since the world began was there such a perversion of terms; and a month ago I stood before a brilliant audience of 700 bankers and business men in New York City, and there challenged the president of the National City Bank to name a single lexicographer on the face of the earth to whom he might appeal to justify his characterization of these notes. I twitted him with the fact that not 1 per cent. of the intelligent bankers of America could be induced to agree with his definition of these notes, and asked him to name a single financial writer of the metropolitan press of his own town, to whom he might confidently appeal to justify his absurd charge. "Fiat money" is an irredeemable paper money with no specie basis, with no gold reserve, but the value of which depends solely upon the taxing power of the Government emitting it. This Federal reserve note has 40 per cent. gold reserve behind it; has 100 per cent. short-term, gilt-edge commercial paper behind it, which must pass the scrutiny, first, of the individual bank, next of the regional reserve bank, and finally of the Federal Reserve Board. In addition to this, it constitutes a first and paramount lien on all the assets of the regional reserve bank, including the double liability of the member banks; and, superadded to this, it has behind it the taxing power, the credit, and the honor of a Nation of 95,000,000 of free people. There is not a semblance of fiatism about these notes; and at the very moment that Mr. Vanderlip, of the National City Bank of New York, was in Chicago recklessly characterizing these notes as "fiat"—meaning without sufficient security—Paul M. Warburg, perhaps the greatest international banker in America, was here in Washington protesting to me that the security behind the notes was entirely too exacting!

Mr. Vanderlip misses the mark a mile, while Mr. Warburg is not far from being right; but we

have thought it better to err on the side of prudence rather than incur the risks of insecurity. . . .

#### AS TO INFLATION

This bill, in its House form, has likewise been subjected to the criticism of providing a wide range of "inflation." On this point I have been more amused than exasperated, because the startling inconsistencies of the critics have been simply ludicrous. On the very day that Mr. Forgan, a great banker, was asserting before the Senate committee that the bill "immensely contracted commercial credits," his fellow townsman, Mr. Dawes, ex-Comptroller of the Currency, was proclaiming out West that the bill "enormously inflated commercial credits." Surely it could not do both things at the same time; nor will it ever do either at any time. It will afford a large expansion of credits, when needed, upon a perfectly sound basis and insure certain contraction of credits at the end of legitimate commercial transactions. This was what it was designed to do, and without the power to do which the bill would be manifestly deficient.

This charge of "inflation," like the criticism in regard to the "fiat" nature of the notes, was echoed in the Senate; and yet the bill came back from the Senate with the possibilities of inflation vastly increased. The only thing done in the other body to diminish the possibilities of over-expansion was slightly to increase the gold reserve; but at the same time the bill was so amended in the other body as to permit the banks to count the Federal

reserve notes as reserve; the reserve requirements were appreciably reduced; banks were accorded the dangerous privilege of unrestricted "acceptances," and other things were done that made the bill, for the first time, amenable to the charge that it provided "inflation."

But the House conferees insisted upon a restoration of safeguards. As the bill now stands we have provided against inflation in almost every conceivable way—by the requirement of a substantial gold reserve; by the requirement of a secondary reserve of short-time commercial paper; by restricting the power of the reserve board to issue notes except upon application from the banks; by the interposition of banking instinct and experience applied in a threefold degree—that is to say, banking discretion is applied in the original discount operation of the individual bank; banking discretion is applied in the rediscount operation of the regional reserve bank; banking discretion is applied when the Federal Reserve Board passes upon the application of the regional reserve bank for additional currency. Thus inflation is held in check, first, by the limited supply of gold; second, by the limited amount of short-time commercial paper; third, by the banking discretion of the individual bank; fourth, by the banking discretion of the regional reserve bank; fifth, by the banking discretion of the Federal Reserve Board, with a broad view of conditions not in a single district, but throughout the entire country. . . .

### ROBERT J. BULKLEY

ANOTHER IMPORTANT contribution of the New Freedom was the writing of the Federal Farm-Loan Act (1916) after long years of struggle on the part of agrarians to obtain long-term credit relief. Throughout the eighties and nineties, and again just before World War I, farmer parties and organizations had clamored for fiat money or government warehouses (the subtreasury scheme) to meet their credit requirements; but without avail. The Democratic Congresses under Wilson—in the face of the skepticism and frequently the hostility of the country's mortgage and life insurance companies—applied themselves to the difficult problem and after many years of labor finally

produced the Federal Farm-Loan Act. It constitutes a landmark in the history of American agricultural legislation.

Robert J. Bulkley (1880– ), Congressman from Ohio, was one of the leaders in drawing up the bill and steering it through the House. In this article, which appeared in *The Journal of Political Economy* in February, 1917, he tells the history of the bill and describes its outstanding provisions. Two sets of institutions were provided: cooperatively owned farm-loan associations and joint-stock land banks; and a new government agency, the Farm-Loan Board, which was to supervise the entire system.

*The Federal Farm-Loan Act*

BY ROBERT J. BULKLEY

THE AMERICAN FARMER has had a harder time to get credit and has had to pay more interest on his loans than the American business man or the European farmer. This is not altogether due to his inability to give good security, nor to any doubt about his ultimate ability to pay his debts, but is principally because he has wanted the use of money for longer periods than the commercial banks like to lend it and because rural credits have not been organized in such a way as to suit the convenience of the long-time investor, or to provide adequately for the safety of his investment. This condition has been recognized for several years and diligent efforts have been made to provide a remedy.

## 1

Conditions are unsatisfactory in respect to both land-mortgage long-term and personal short-term credit, but the former is generally conceded to be the more fundamental and important problem. Notwithstanding all difficulties, the farmer has succeeded in getting a good deal of money on mortgage security. The total is estimated at more than  $3\frac{1}{2}$  billion dollars. Much of this amount is loaned at reasonable rates, but in many sections interest is unreasonably and unnecessarily high, and, for the most part, the loans are made for relatively short terms—three to five years. . . .

Very little of the farm-mortgage business is done on the amortization plan, and some of the institutions operating on that plan compel the repayment of principal in rather too short a time. As the amortization-plan business is an insignificant part of the whole, renewals are necessarily frequent, with the attendant commission charges and other costs. It is obvious that notwithstanding the fact that large amounts are already loaned on farm mortgages and that many cases can be cited in which the interest charges are not unreasonable, there is nevertheless a big national problem to be solved in improving and extending agricultural land mortgage credit.

It is a problem in which the nation is even more vitally interested than the farmer himself, for availability of funds at reasonable rates is encouragement to the farmer to improve his lands and so increase his yield of foods. The farmer's temptation to "rob the soil" which might be another's after the old-fashioned three-year or five-year mortgage should fall due does not exist under the long-term, non-callable, amortization-plan

mortgage which gives the farmer a satisfactory sense of permanence in his land ownership and makes him the most interested and diligent conservator of his soil. Such a change in attitude interests and benefits us all, for it is certain to increase our national agricultural productiveness.

But improvement of farm lands and increase of food supply are not the only important changes which may be brought about by improved rural credits. We may also expect that better credit facilities will increase the number of independent home-owners working their own lands and reduce the number, or at least reduce the proportion, of tenants laboring on the lands of absentee landlords. This would surely represent an advance, for in this country of ours there is already enough absentee landlordism on the farm to give us very serious cause for apprehension. We may hope, too, that improvement in rural credits will tend noticeably to check the drift of population to great cities, which, it is generally recognized, has gone too far for the good of the country. . . .

In the spring of 1913 a commission of seven members appointed by the President traveled through Europe co-operating with a commission made up of members appointed by governors of the several states and some of the Canadian provinces, to study agricultural-credit conditions in the Old World. This commission concluded from a study of European experience that long-term land-mortgage credit presents a problem so distinct from that of short-term personal credit that the two forms of credit cannot well be handled by the same bank or system of banks. The commission believed that the consideration of short-term personal credit should be deferred until after a land-mortgage system had been established, because the principles to be applied to the establishment of land-mortgage credit involve a more radical departure from existing practice in the United States and because it must remain uncertain to what extent existing institutions can cope with short-term agricultural credits until we shall have had the opportunity to observe the effect of the Federal Reserve act and an adequate land-mortgage system, both of which should have a distinctly helpful effect on agricultural short-term credits.

The commission appointed by the President embodied its recommendations for the establishment of an agricultural land-mortgage system in a spe-



cific bill, which was introduced simultaneously in the Senate by Senator Fletcher of Florida and in the House of Representatives by Representative Moss of Indiana in January, 1914. . . . This bill was generally condemned by farmers' organizations because it was believed that under the conditions prescribed joint-stock banks would be organized rather than co-operative banks and that the bill was on the whole rather a bankers' than a farmers' measure. . . .

. . . In January, 1910, the joint committee made its land-mortgage report to Congress, and submitted a bill to create an agricultural land-mortgage system, the bill being introduced simultaneously in the Senate by Senator Hollis and in the House by Mr. Moss.

This bill was debated and passed by both Houses with some amendments, but in all essentials it passed as reported by the joint committee. It is worth while to recall how nearly unanimously this measure was passed. It passed the Senate on May 4 by 57 to 5, and the House on May 15 by 295 to 10. The conference report was adopted in the House by 311 to 12 and in the Senate without objection. The act was approved by the President and became a law on July 17, 1916.

### III

Those who were charged with framing agricultural land-mortgage legislation were confronted with the problem of making a national system to apply to lands under many state sovereignties and under greatly varying conditions of climate, soil, crops, character of ownership, and methods of cultivation; they were confronted on the one hand with the American farmer's individualism and lack of co-operative experience, and on the other hand with his distrust of a system operated by bankers for banking profits; they were called upon to devise a system of land appraisal liberal enough to satisfy the borrower, yet careful enough to satisfy the investor in land-mortgage bonds, and to devise a system of management efficient in operation yet without the payment of large salaries or commissions; they were called upon to reduce interest on farm mortgages without unduly enhancing values of farm lands; they had to establish long-term loans in a country in which the amortization system was practically unknown, and they had to reconcile widely divergent views as to the proper function of the government in the premises. There should be no surprise that the act as passed comprises 35 sections and covers 25 large pages. . . .

In presenting the bill to the Senate last April Senator Hollis said: "The plan has been criticized

because it is cumbersome and complicated and because the bill is long. . . . But the bill is not really long. It is as long as it is in order to make the operation simple and certain. It is not cumbersome. There could not be anything simpler than this bill." This is substantially true. Yet the act contains nearly sixteen thousand words. A recital of all of its provisions would be tedious, and, unless special stress were laid on the vital points, it would tend only to confuse. For the present purpose the important things may be conveniently emphasized by the entire omission of minor details and technicalities. To get in a few words the essence of what is in the law, we may turn to the description of it that Senator Hollis gave to the Senate when he presented his bill:

The pending rural-credits bill provides for a Farm-Loan Board which shall have general control over the system; twelve or more land banks which make loans on mortgage to the farmer; and many farm-loan associations which represent the farmers in their dealings with the land banks.

The Farm-Loan Board is non-partisan, consisting of four members, in addition to the Secretary of the Treasury.

Each land bank must have a capital of at least \$500,000.<sup>1</sup> If the public does not subscribe the entire amount, the government will take the balance.

The farm-loan associations are purely co-operative, made up entirely of borrowing farmers. Ten or more farmers may apply to the land bank of the district for a charter. Every farmer who wishes to borrow must become a member of the loan association, taking stock to the amount of 5 per cent of the face of his loan. The loan association takes out an equal amount of stock in the land bank, forwarding the money at once to the land bank. The land bank sends an official appraiser to examine the land, and, if the loan is made, forwards the funds to the farmer through the loan association.

When the land bank has mortgages on hand to the amount of \$50,000, it may issue a like amount of farm-loan bonds on the security of the mortgages as collateral. The land bank is limited in its issue of bonds to 20 times its capital and surplus. But as each borrower puts up 5 per cent of his loan in cash for capital stock, the issuing power of the land bank increases automatically.

The loan associations are purely co-operative and may be of limited (double) liability or unlimited liability.<sup>2</sup> All mortgages taken by the land bank from the members of a loan association are indorsed by it. The mortgages from the two classes of associations are kept separate, and bonds issued on the unlimited liability mortgages should sell on a better basis than the others.

Farm-loan bonds issued by any land bank are guar-

<sup>1</sup> This was amended. The act provides a minimum capital of \$750,000.

<sup>2</sup> The "unlimited liability" provision was eliminated by amendment.



anted by all the other land banks, so that they have a broad insurance.

Every farm-loan bond is secured as follows:

1. By the capital, reserves, and earnings of the land bank which issues it.
2. By the capital, reserves, and earnings of the 11 other land banks.
3. By the collective security of all the mortgages in its division (limited or unlimited) of the land bank, the mortgages pledged being at least equal in amount to the outstanding bonds.

Every mortgage pledged as collateral is secured as follows:

1. By the personal undertaking of the borrower.
2. By the security of the mortgaged land, in value at least double the amount of the loan.
3. By the capital, reserves, and earnings of the local association indorsing the loan.
4. By the individual liability of the members of the indorsing association.

It is believed that these bonds will be marketed at par on a 4 per cent basis. The maximum charge for expenses and profits of the system is 1 per cent on the face of outstanding mortgages, so that the farmer should get his money at 5 per cent. All the profits go to the loan associations in dividends and thus to the borrowers who are the shareholders in the local associations.

Loans to farmers are on long term, and may be as long as thirty-six<sup>3</sup> years. They are on the amortization plan, so that with each interest payment the borrower will pay in a small amount on his principal. If he pays in 1 per cent of the principal yearly, he will pay out in thirty-six years.

Loans must be on first mortgage and may not exceed 50 per cent of the appraised value of the land. The loan committee and the board of directors first pass on the value of the land and the character of the farmer. Before the land bank makes the loan its board of directors passes upon it and has the land appraised by a land-bank appraiser, who is a government official. In this way absolute safety is secured for each loan.

The interest of the members of the loan association is secured by their ownership of stock, and by their double or unlimited liability,<sup>4</sup> as the case may be. Most of the local work of investigation, collecting payments, and forwarding funds is done by them without expense. Their expenses will be very light.

The mortgages and farm-loan bonds will be exempt from taxation and the bonds will be a legal investment for trust funds.

It is believed that the system of land banks outlined affords a safe and attractive farm-land bond for the investing public; low interest rates, long-term mortgages, and easy payments for the farmers; low cost of administration; simplicity of organization and operation; adaptability to the needs of every section; and

stimulation to the spirit of generous co-operation among farmers.

The system thus described is founded on sound principles. The mobilization of farm mortgages behind the several series of farm-loan bonds and the mutual guaranties of the Federal Land Banks make possible the creation of a national security in which investment may be made without the risks attendant upon the possible mismanagement or failure of individual farmers or upon sectional crop failures or catastrophes. Certainly through a period of years most of our farmers will succeed in paying their debts, and through this well-organized mobilization of mortgages will absorb the losses incident to individual failures, so that the investor will have a security so safe that he can afford to accept a return representing only the actual value of the use of the credit, without adding anything to compensate for the risk which has hitherto been involved in farm mortgages.

The exemption of the mortgages and farm-loan bonds from taxation only avoids double or treble taxation, since the lands which are the real basis of value remain subject to taxation according to the laws of the several states. The tax-exemption feature makes the bonds a more desirable investment and should substantially reduce the rate of interest demanded by the investor.

Another valuable feature of this co-operative land-mortgage system is that it is so organized that it will be to the advantage of all who have a voice in controlling it to reduce the interest rate to the farmer; all self-interest in raising rates has been eliminated. Quite properly whatever profits may arise from the operation of the system will ultimately go back to the borrowers in the form of dividends upon the stock of the local associations which they are required to purchase.

The amortization plan is established on absolutely sound principles. Amortization-plan loans cannot well be made by individual investors or by small institutions, since such lenders cannot use to advantage the small dribbles of repayment on capital account which come in from year to year over a long period. Amortization loans should be made by institutions of large size, so that the annual amortization payments will be in sufficient volume for efficient reinvestment or for retiring obligations of the loaning institution. The concentration of the bond-issuing power in the twelve land banks adequately covers this point, as each of the institutions will undoubtedly have out enough loans so that the annual repayments on principal account will be considerable.

The act very wisely provides that the loans are

<sup>3</sup> Bill amended to provide for a maximum period of forty years.

<sup>4</sup> The "unlimited liability" provision was eliminated by amendment.

to be made through small local co-operative associations. This gives the system the benefit of the knowledge which the farming members have concerning neighborhood land values and the personal character and ability of the applicants for loans. We may be assured that this knowledge will be used to protect the banks against making questionable loans, since every loan is guaranteed by the local associations and thus its ultimate repayment is a matter of direct financial interest to each and every member stockholder of the association. Of course the land banks and bondholders are still further protected by the close government supervision provided.

Co-operation is relatively new to the American farmer, and we often hear it said that he will not take kindly to a system which forces his co-operation with his neighbors and makes known to them the details of his land-mortgage operations. There is no doubt some force in this, but the loan applications already received by the Federal Farm-Loan Board are abundantly sufficient to insure the successful inauguration of the system, and there is every reason to believe that the actual operation of the system will provide such an object-lesson in the benefits of farmers' co-operation that the objections which have been suggested will, as time goes on, more and more fade into insignificance. In order to accelerate the farm-

ers' education in the co-operative idea as well as the other features of the operation of the Farm-Loan act, the Farm-Loan Board is authorized from time to time to prepare and distribute bulletins on the subject. With the help of this provision for propaganda the sound principles underlying the system should soon commend themselves to American farmers generally, and there is every reason to believe that the Farm-Loan act marks the beginning of a great and valuable co-operation among farmers hitherto unknown and believed to be impossible. . . .

The Farm-Loan act provides adequately for the mobilization of farm-mortgage credit; it establishes the amortization system of repayment; it provides adequately for care and conservatism coupled with real sympathy in the making of loans; and it provides some safeguards against the undue use of the benefits of the system for land speculation. It has given us a well-qualified and efficient Farm-Loan Board, and has committed the government, without party division, to the great task of establishing an adequate American agricultural land-mortgage system. A great reform, agitated and labored with for years, has already begun to bear fruit, and bids fair in the course of the next few years to fulfil most of the hopes that have been aroused by the discussion of it. . . .

# THE UNITED STATES AND THE WORLD

SIR GEORGE PAISH

AMONG THE RESULTS of the panic of 1907 was the appointment of the National Monetary Commission to provide information for a legislative program of reform in the United States currency system. The Commission's most important activity was the publication of a series of monographs, among them Sir George Paish's study of the *Trade Balance of the United States*. Sir George (1867- ), the distinguished English economist, who was a close student of American railway securities, discussed American foreign trade in its relation to the nation's specie reserve and currency system.

Of particular significance in Sir George's analysis was the description of America's position as a debtor nation. He pointed out that Britain was our chief creditor—having helped in the financing of many of the important railway systems of the United States—but that German, French, and other European investments were quite heavy. As offsets, and these were new developments, Americans were beginning to send capital out into the rest of the Western Hemisphere. On long-term and short-

term operations, we owed \$6,500,000,000; others owed us \$1,500,000,000, leaving a net unfavorable balance of \$5,000,000,000, which required a net payment by the United States annually of \$225,000,000 to other countries for interest and dividends.

Ten years earlier, in 1900, an American, Nathaniel Bacon, had sought to arrive at an estimate of American obligations to foreigners. As of 1898, he calculated that British investments here totaled \$2,500,000,000; Dutch \$241,000,000; German \$200,000,000; Swiss \$75,000,000; French \$50,000,000; Belgian \$20,000,000; and Russian \$15,000,000. In all, the total came to somewhat less than \$3,000,000,000. American overseas investments, on the other hand, were still slight. The net result was an annual payment to foreigners of \$90,000,000 for interest and dividends.

The selection here reprinted is from Sir George Paish, *Trade Balance of the United States* (Washington, 1910) and appeared as Senate Document No. 579, 61st Congress, 2d Session.

## *Trade Balance of the United States*

BY SIR GEORGE PAISH

### VIII: LENDING AND BORROWING COUNTRIES

PRIOR to dealing specially with the trade balance of the United States it may be useful to discuss briefly the effect upon trade balances of the more important countries of the world of exports and imports of capital and of the receipt and payment of interest thereon. There is practically no country which neither exports nor imports capital with the exception of Thibet. This type of coun-

try may be left out of consideration. The chief countries which supply capital to other lands are Great Britain, Germany, France, Holland, Belgium, and Switzerland. Of these countries, Great Britain is by far the most important lender. This country has about \$15,000,000,000 of capital invested abroad and is adding to its colonial and foreign investments at the rate of upwards of \$500,000,000 a year. Germany and France come next with investments of about \$8,000,000,000 each.

The investments of Holland, Belgium, and Switzerland are of much smaller amount, but are nevertheless considerable. The imports of all these five countries largely exceed their exports in consequence of the receipt of interest and of tourist expenditures. In the case of Great Britain the excess of imports over the exports is further largely increased by the earnings of British ships, the tonnage of which forms so large a portion of the world's international shipping facilities. The fleets of other countries are not much more than sufficient to take care of their own trade in the aggregate; indeed, in most cases they are insufficient for this purpose, and the deficiency is made good by the British mercantile marine.

The principal countries whose exports exceed their imports in consequence of the large amount of interest they have to pay on capital borrowed from other lands are the United States, the Australasian colonies of Great Britain, British India, Argentina, Brazil, and Mexico. Several other countries whose imports now exceed their exports will eventually come into this category. At the present time Canada's imports largely exceed her exports in consequence of the vast amount of capital—about \$200,000,000 a year—which she is borrowing from other lands—almost entirely from Great Britain. In the course of time the Canadian indebtedness to other countries and the expenditures of her tourists, etc., will be so great that her exports will exceed her imports, although large amounts of capital will continue to flow into the country each year. Of course Canada will have no difficulty in making these interest payments, having regard to the rapid growth in the annual amount of wealth created by means of the capital she is importing. China, Japan, and Chile are other instances of borrowing countries whose imports exceed their exports in consequence of the inflow of large amounts of foreign capital.

Parenthetically, I would ask the reader to note that in the case of the United States the excess of exports over imports arises only in part from payment of interest on capital previously borrowed. The excess of exports is in part due to the expenditures of American visitors to Europe, to Egypt, and elsewhere, in part to the remittance of money by American citizens to friends in other lands, and in part to the payment for ocean transport of freight. But at the moment I wish to refer more particularly to the effect upon trade balances of the lending and borrowing of capital and of the receipt and payment of interest thereon. In this respect it should be noted that Great Britain is by far the largest lender of capital, and that the United States has obtained a greater amount of

capital from other countries than any other State, that in the case of Great Britain the great balance of imports over exports is mainly due to the receipt of interest on capital invested in other lands, and that in the case of the United States the excess of exports over imports arises in large part from the payments of interest upon capital borrowed from other countries. . . .

. . . Great Britain possesses about \$3,500,000,000 of American securities. To this sum has to be added the considerable amounts invested by the Continent. Large amounts of German, Dutch, and French capital are embarked in American undertakings, principally railways. A statement drawn up in 1902 at the instance of the French Minister of Finance from reports supplied by French diplomatic agents and consuls in various parts of the world placed the total amount of French capital invested at that time in the United States at 600,000,000 francs, or \$120,000,000, but this figure appears to have been an underestimate. It is true that few issues of American securities are publicly quoted on the Paris Bourse, but relatively large amounts have been purchased privately by French investors in London and in New York. The French investments in the United States, including the Pennsylvania Railroad and other loans placed in Paris since 1902, amount to nearly 2,500,000,000 francs, or \$500,000,000.

Estimates of the amount of capital invested by Germany in the United States were made in 1905 by the German Admiralty and published in a work entitled "*Die Entwicklung der Deutschen Seeinteressen im letzten Jahrzehnt.*" These estimates placed the amount of German capital in the United States and Canada in 1904 at from 2,500,000,000 marks to 3,000,000,000 marks, say, \$625,000,000 to \$750,000,000. Since 1904 considerable additional sums of German capital have been invested in the United States. German bankers place the amount of the German investments in American securities at about \$1,000,000,000. The amount of Dutch capital in the United States is about \$750,000,000. American securities are also held in Belgium, Switzerland, and in other countries. In the aggregate the amount of European capital invested in "permanent" securities in the United States is approximately \$6,000,000,000.

Beyond the fixed capital invested by Europe in the United States account has to be taken of the floating loans made by Europe to America. These floating loans are mainly incurred in the spring and summer months in anticipation of the produce shipments from the States in the fall months and they are then largely liquidated. The amount of the floating debt of the United States to Europe

in the form of produce bills, finance bills, loans against securities, overdrafts, etc., averages about \$400,000,000, reaching a larger sum in July and early August and falling to a much lower sum at the end of December. The rate of interest paid upon this floating debt insofar as it consists of produce bills is a very low one, the rate of interest charged on this class of loan being less than that on any other kind of security.

Including both the fixed investments and the floating loans, the amount of capital borrowed by the United States from other countries is about \$6,500,000,000, the annual interest charge upon which is about \$300,000,000.

An offset to the large amount of capital invested in the United States is the capital invested by American citizens in other countries, more especially in Mexico, Canada, in the South American States, in the Philippines, in Cuba, etc. It is true that a portion of the capital of these foreign undertakings in which American capital is invested has been provided by European investors; nevertheless, as these corporations are American and the amounts invested in the United States by Europe include investments in these foreign companies, it is necessary to place the interest received from these foreign investments by American corporations against the interest paid to Europe. Beyond the capital of public corporations which have been formed under state laws in America the capital invested privately by American citizens in other lands reaches to a considerable total. The amount of American capital invested in other lands in this manner both publicly and privately is probably \$1,500,000,000, yielding an income of about \$75,000,000 a year. By deducting the interest—\$75,000,000—received upon American capital placed abroad from the interest—\$300,000,000—which the United States pay upon capital supplied to them by other lands, I arrive at a net payment of \$225,000,000 by the United States to other countries for interest and dividends upon capital. This sum the United States has to remit each year by exports of produce.

#### XVII: EFFECT UPON UNITED STATES TRADE BALANCE OF IMPORTS AND EXPORTS OF CAPITAL

I have already shown that European countries, especially Great Britain, make large investments in the United States. The inflow of this capital is more or less spasmodic. At times the amount invested in a single year reaches to large figures, at others there is practically no investment of new capital, while on rare occasions the United States pays back a portion of the capital previously borrowed. These movements of capital into and out of the country powerfully affect either the im-

ports or the exports. In periods of capital inflow the imports of goods are swollen, while exports are relatively light. Capital can only be imported by one country from another by the remittance of goods, hence the effect upon imports or upon exports of the import or repayment of capital. Nevertheless, it is necessary to recollect that the obligations of the borrowing countries to the lending countries is, after a period of years, much greater than is indicated by the amount of capital actually received by that country. Not infrequently the undertakings in which foreign capital is invested use a large portion of their profits for betterments and for capital purposes, and do not distribute it in dividends. The retention of this profit for capital expenditure increases the indebtedness of the borrowing countries, although no actual remittance of capital from one country to the other has taken place. Undivided profits of one year become capital in the next. This practice of using profits for capital purposes is responsible for no inconsiderable portion of the capital invested by other countries in the United States. Thus, if it were possible to ascertain the actual amount of capital that was remitted from other countries to the United States, the total would not nearly reach the amount of capital now belonging to other nations and employed by the United States. The method of raising capital for railway companies in the past has largely contributed to securing for the United States a larger amount of capital than that which was directly borrowed. A great number of the railways of the country raised their capital by selling bonds to Europe, and to place the bonds they issued a considerable amount of common stock for which no additional payment was required. By accumulating profits instead of by dividing them in dividends, and by using those profits for capital purposes, the stock which was originally issued as an inducement to investors to subscribe for bonds has been gradually paid up, and at the present time the railway companies possess actual assets to an extent equal to if not exceeding the nominal amount of their bonds and stock. This latter method of borrowing capital does not appreciably affect either exports or imports. If anything, it tends to check both the exports and the imports, as it means that the borrowing country has to remit a smaller amount to other lands for interest and has to receive a smaller amount of foreign produce for capital investment. On the whole, however, the investment of capital through the accumulation of profits has very little immediate effect either upon imports or upon the exports. Ultimately, of course, by increasing the productive power of the country and increasing its ability to exchange produce for the goods of

other countries, it tends to increase both the exports and the imports. Further, the payment of interest upon capital accumulated in this manner to its owners in other lands increases the exports of produce but not the imports.

The inflow of capital from other countries is sometimes nearly \$250,000,000 in a year and, on the other hand, the repayments have reached to about \$150,000,000 in a year. The normal course of events, however, is for capital to flow into the United States year after year and for repayments to be made but very seldom.

All through the earlier years of the last century up to the later seventies capital was sent into the United States in considerable amounts, and this explains the reason for the large excess of imports over the exports in this period notwithstanding the increasing annual payments of interest to other lands and the considerable annual sums that even then were expended for tourist outlays, remittances to friends, and ocean freights.

In the later seventies a wave of distrust passed over Europe and for the moment investments of capital by Europe in the United States came to an end. This explains the reason for excesses of exports over imports of \$262,000,000 in 1878 and of \$270,000,000 in 1879 in place of an excess of imports over exports of \$116,000,000 in 1872. These figures include the combined balances of merchandise and the precious metals.

In the eighties capital was invested very freely in the United States by Europe, and notwithstanding the very large amount of the annual interest and dividend obligations, expenditures by tourists, and remittances to friends, the imports into the United States again exceeded the exports in 1888 by a sum of \$40,000,000, a figure which reflected the very large inflow of capital in that year.

The financial crisis which took place in July, 1893, again checked the imports of capital into the country and the exports once more began to exceed the imports by large sums annually. The obligations of the United States to Europe were curtailed at this time by default of interest and

absence of dividends upon large amounts of railway stocks and bonds. Further, the severe depression greatly diminished American tourist expenditures in other lands and severely contracted the remittances to friends. With the recovery in trade that took place in 1897 and 1898 interest payments were largely resumed and expenditures became freer. Nevertheless the economy of the American people was so great that the excess of exports over imports rose to figures which enabled a considerable amount of the capital previously invested in the States to be repaid. This is the explanation for an excess of \$534,000,000 of exports over imports—merchandise, gold, and silver—in 1898, of an excess of \$504,000,000 of exports over imports in 1898-99, of \$570,000,000 in 1899-1900, and of \$680,000,000 in 1900-1901. In these four years not only did the United States borrow no fresh capital from abroad, but it repaid considerable sums beyond meeting its interest obligations, tourist expenditures, and making remittances to friends.

The great prosperity of the country since 1901 has enabled the American people to resume their normal rate of expenditure, and in this period they have again imported large amounts of capital from abroad. I calculate that in the past year to June, 1909, European countries invested about \$184,000,000 in the country. In this period the excess of merchandise exports over imports has been \$351,000,000, the excess of gold exports over imports has been \$48,000,000, the excess of silver exports over imports has been \$12,000,000, and the total excess of exports over imports has been \$411,000,000, whereas the sum needed to cover interest payments, tourist outlays, remittances to friends, and freight charges has been about \$595,000,000. The difference between the two sums has been met by investments of capital by Europe in the United States. Perhaps the situation will be more clearly realized if I set it out in tabular form.

This balance of \$184,000,000 has been liquidated by permanent or temporary investments of capital by other countries in the United States.

#### *Foreign trade of the United States, 1908-9*

##### Merchandise:

##### Exports—

Domestic .....	\$1,638,000,000
Foreign .....	25,000,000
Total .....	\$1,663,000,000

Imports .....	1,312,000,000
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Excess of merchandise exports over imports ..... \$351,000,000

##### Gold:

Exports .....	\$92,000,000
Imports .....	44,000,000

Excess of gold exports over imports ..... 48,000,000

## Silver:

Exports .....	\$56,000,000	
Imports .....	44,000,000	
Excess of silver exports over imports .....		12,000,000
Total excess of merchandise, gold, and silver exports over imports .....		\$411,000,000
Remittances for interest, etc.:		
Interest .....	\$250,000,000	
Tourist expenditures .....	170,000,000	
Remittances to friends .....	150,000,000	
Freight .....	25,000,000	
Total remittances .....		595,000,000
Excess of sum remitted for interest, tourists, to friends, and for freights over trade balance .....		184,000,000

## THEODORE ROOSEVELT

IN FEBRUARY, 1904, within three months of Theodore Roosevelt's recognition of the Republic of Panama, his Secretary of State, Elihu Root, undertook to justify that action not on grounds of national interest, but as an instance of ethical conduct between states. To reach that conclusion, Elihu Root turned to the treaty of 1846, by which the United States guaranteed freedom of transit across the isthmus of Panama. Had we then permitted Colombian troops to land and suppress the Panama Revolution last October, the ensuing struggle might have been prolonged to the point where such free transit would be hindered. Since the United States stood charged with responsibility for maintaining free passage, it was necessary for it to recognize Panamanian independence if it meant to fulfill its international obligations.

Though Theodore Roosevelt (1858-1919) had followed Root's argument in his message to Congress of January 4, 1904, he spoke more forthrightly in his *Outlook* article seven years later. From first to last, said Roosevelt, he had acted in the interest of the United States and of the world's commerce. We had been in the right when we demanded that Colombia accept the Hay-Herran convention precisely as drafted, and we had been in the right when we paid the New Panama Canal Company \$40,000,000. The Panama revolt was inevitable and the duty of the United States government com-

pletely clear: the end justified the means of its attaining and an American president must necessarily prefer the interests of the people of the United States to that of any group of bandits, "foreign or domestic."

But the background of American intervention was not quite so simple. In 1894, a New Jersey corporation, the Panama Canal Company of America, was organized. It exchanged its securities for those of the New Panama Canal Company, which had taken over the rights of the De Lesseps organization on the latter's failure to construct an isthmian canal. Soon after, the agents of the new company, William N. Cromwell of New York and Philippe Bunau-Varilla, representing French interests, began their effort to sell their rights to the United States before 1904, when those rights would revert to the Colombian government.

The first purpose of the canal company agents was to keep Congress from ordering the canal to be dug across Nicaragua. And here nature aided. Although a congressional committee had recommended the Nicaragua route in 1901, volcanic eruptions on the island of Martinique, and even on the Nicaraguan mainland, produced a change in American opinion. The Spooner Act of 1902, therefore, provided that the canal be built across Panama if arrangements with Colombia could be concluded within a "reasonable time."

The Hay-Herran pact between the United States and Colombia was drafted at the turn of 1903, accordingly. By its terms, the United States acquired what Colombia considered sovereign rights over the canal strip, and Colombia was required to waive any claim to a share in the \$40,000,000 set as the price the United States was prepared to pay for the rights of the New Panama Canal Company.

The Colombian Congress delayed action on the pact. Time went by, and one may infer anxiety among the agents of the canal company. Then Colombia refused to ratify the Hay-Herran convention. To some Americans, including the President, Colombia was attempting to levy blackmail on the United States to the sum we seemed bound to pay for the canal company's rights. Other Americans, less clear-sighted perhaps, could not appreciate the distinction between \$40,000,000 paid into the treasury of a Latin American semidictatorship and the same amount paid to a corporation whose control seemed obscure at the time and proved impossible to ascertain on investigation later.

Roosevelt would not pay tribute to a Colombian Congress, however, nor would he obey the behest of his own legislature and accept the longer—and possibly volcanic—Nicaragua route because of Colombia's procrastination. Instead, he studied the case for the United States to exercise a right of "eminent domain" over the Isthmus and listened, noncommittally, to the protests of the canal-company agent, Bunau-Varilla.

During that summer of 1903, Cromwell and Bunau-Varilla were talking of a revolution to promote the secession of Panama from Colombia. With the administration's insistence that Bogota ratify the Hay-Herran pact without modification for evidence, the representatives of the canal company decided that the United States would not be likely to permit Colombia to reduce a Panama rising by force.

The likelihood of trouble on the Isthmus seemed so patent by mid-October, 1903, that the United States ordered its navy to hold warships within striking distance. The Panama insurgents did not move until November third. On the fourth, Colombian troops were refused passage across the Isthmus. Two days later, Panama proclaimed its independence and, within an hour, the United States recognized the revolutionists as a *de facto* government.

The rest of the story is familiar enough: Panama granted the United States jurisdiction over the ten-mile strip within which the canal was to be built; the canal company received its \$40,000,000; and work began on the canal. In 1914, Wilson recommended that \$25,000,000 be paid to Colombia. Senate Republicans led by Henry Cabot Lodge blocked the agreement. But when a Republican once again occupied the White House, and Colombian petroleum deposits had become important, even Lodge did not protest against the payment to Colombia. By this time, Roosevelt was no longer alive to defend himself.

The selection here reprinted is from the *Outlook* for October 7, 1911.

### *The Panama Canal*

BY THEODORE ROOSEVELT

#### HOW THE UNITED STATES ACQUIRED THE RIGHT TO DIG THE PANAMA CANAL

NO OTHER great work now being carried on throughout the world is of such far-reaching and lasting importance as the Panama Canal. Never before has a work of this kind on so colossal a scale been attempted. Never has any work of the kind, of anything approaching the size, been done with

such efficiency, with such serious devotion to the well-being of the innumerable workmen, and with a purpose at once so lofty and so practical. No three men in the service of any Government anywhere represent a higher, more disinterested, and more efficient type than the three men now at the head of this work—the Secretary of War, Mr. Stimson; Col. Goethals, the man who is actually doing the digging; and Dr. Gorgas, who has turned



one of the festering pestholes of the world into what is almost a health resort. In eighteen months or so the canal will probably be in shape that will warrant sending small vessels through it to test its actual working. Under these circumstances, it is worth while to remember just how it was that America won for itself and the world the right to do a world job which had to be done by some one, and the doing of which by anyone else would have been not merely a bitter mortification but a genuine calamity to our people.

On December 7, 1903, and again on January 4, 1904, as President of the United States, in messages to the two Houses of Congress, I set forth in full and in detail every essential fact connected with the recognition of the Republic of Panama, the negotiation of a treaty with that Republic for building the Panama Canal, and the actions which led up to that negotiation—actions without which the canal could not have been built, and would not now have been even begun. Not one important fact was omitted, and no fact of any importance bearing upon the actions or negotiations of the representatives of the United States not there set forth has been, or ever will be, discovered, simply because there is none to discover. It must be a matter of pride to every honest American, proud of the good name of his country, that the acquisition of the canal and the building of the canal, in all their details, were as free from scandal as the public acts of George Washington and Abraham Lincoln.

The facts were set forth in full at the time in the two messages to which I have referred. I can only recapitulate them briefly, and in condensed form. Of course there was at the time, and has been since, much repetition of statements that I acted in an "unconstitutional" manner, that I "usurped authority" which was not mine. These were the statements that were made again and again in reference to almost all I did as President that was most beneficial and most important to the people of this country, to whom I was responsible, and of whose interests I was the steward. The simple fact was, as I have elsewhere said, that when the interest of the American people imperatively demanded that a certain act should be done, and I had the power to do it, I did it unless it was specifically prohibited by law, instead of timidly refusing to do it unless I could find some provision of law which rendered it imperative that I should do it. In other words, I gave the benefit of the doubt to the people of the United States, and not to any group of bandits, foreign or domestic, whose interests happened to be adverse to those of the people of the United States. In my

judgment, history had taught the lesson that the President has very great powers if he chooses to exercise those powers; but that, if he is a timid or selfish man, afraid of responsibility and afraid of risks, he can of course manufacture ingenious excuses for failure to exercise them. At a great crisis in American history Mr. Buchanan had shown himself to belong to the latter type of President; Mr. Lincoln had represented the other type, the type which gave the people the benefit of the doubt, which was not afraid to take responsibility, which used in large fashion for the good of the people the great powers of a great office. I very strongly believe that Abraham Lincoln had set the example which it was healthy for the people of the United States that their President should follow.

For many years prior to 1903 our Government had been negotiating with foreign powers to provide for the building of a Panama Canal. By 1902, on the conclusion of the Hay-Pauncefote treaty, we had cleared the way sufficiently to enable Congress to pass an act actually providing for the construction of a canal across the Isthmus. By this act the President was authorized to secure for the United States the property of the French Panama Canal Co. and the perpetual control of a strip of territory across the Isthmus of Panama from the Republic of Colombia within a reasonable time and at a reasonable price, and, if the endeavor failed, the adoption of the Nicaragua route was authorized.

In October and November, 1903, events occurred on the Isthmus of Panama which enabled me, and which made it my highest duty to the people of the United States, to carry out the provisions of the law of Congress. I did carry them out, and the canal is now being built because of what I thus did. It is also perfectly true that, if I had wished to shirk my responsibility, if I had been afraid of doing my duty, I could have pursued a course which would have been technically defensible, which would have prevented criticism of the kind that has been made, and which would have left the United States no nearer building the canal at this moment than it had been for the preceding half century. If I had observed a judicial inactivity about what was going on at the Isthmus, had let things take their course, and had then submitted an elaborate report thereon to Congress, I would have furnished the opportunity for much masterly debate in Congress, which would now be going on—and the canal would still be 50 years in the future.

The interests of the American people demanded that I should act just exactly as I did act; and I

would have taken the action I actually did take even though I had been certain that to do so meant my prompt retirement from public life at the next election, for the only thing which makes it worth while to hold a big office is taking advantage of the opportunities the office offers to do some big thing that ought to be done and is worth doing.

Under the terms of the act the Government finally concluded a very advantageous agreement with the French Canal Co. The French Co. had spent enormous sums on the Isthmus. We felt justified in paying the company only a very small fraction of what it had thus spent. The treaty we made was advantageous to us in a very high degree, and we got what in value was much more than what we paid for it; but the French Co. did get something, and if we had not stepped in it would have gotten absolutely nothing. Every step taken by the Government in connection with its negotiations with the French Co. and the payment to its official representatives in accordance with the agreement entered into was taken with the utmost care, and every detail has been made public. Every action taken was not merely proper, but was carried out in accordance with the highest, finest, and nicest standards of public and governmental ethics. Doubtless in Paris, and perhaps to a lesser extent in New York, there were speculators who bought and sold in the stock market with a view to the varying conditions apparent from time to time in the course of the negotiations, and with a view to the probable outcome of the negotiations. This was precisely what speculators did in England in connection with the outcome of the Battle of Waterloo, and in our own country in connection with Abraham Lincoln's issuance of the emancipation proclamation and other acts during the Civil War. The rights of the French Co. having been acquired, and the difficulties caused by our previous treaties having been removed by the Hay-Pauncefote treaty, there remained only the negotiations with the Republic of Colombia, then in possession of the Isthmus of Panama. Under the Hay-Pauncefote treaty it had been explicitly provided that the United States should build, control, police, and "protect" (which incidentally means to fortify) the canal. The United States thus assumed complete responsibility for, and guaranteed the building of, the canal. Nearly 50 years before, our Government had announced that it would not permit the country in possession of the Isthmus "to close the gates or interfere" with opening one of the "great highways of the world," or to justify such an act by the pretension that this avenue of trade and travel belonged to that country and that it chose to shut it. We had always insisted upon

the doctrine thus declared, and at last the time had come when I could reduce it to action. We negotiated with the representatives of Colombia a treaty for building the canal, a treaty which granted to Colombia even greater advantages than were subsequently granted to the Republic of Panama, a treaty so good that after it had been rejected by Colombia, and after we had recognized Panama, Colombia clamored for leave to undo the past and enter into the treaty. But the Colombian Government, for reasons which, I regret to say, were apparently very bad indeed, declined to consummate the treaty to which their representatives had agreed. The Isthmus of Panama was then a part of the Colombian Republic, and the representatives of Panama in the Colombian legislature at once warned Colombia that the people of Panama would not submit quietly to what they regarded as an utter ignoring of their vital interests. We also, courteously and diplomatically, but emphatically, called the attention of the Colombia representatives to the very serious trouble they were certain to bring upon themselves if they persisted in their action. I felt very strongly that the position that the one-time Secretary of State, Cass, had taken nearly 50 years before was the proper position, and that the United States would be derelict to its duty if it permitted Colombia to prevent the building of the Panama Canal. I was prepared, if necessary, to submit to Congress a recommendation that we should proceed with the work in spite of Colombia's opposition, and indeed had prepared a rough draft of a message to that effect, when events on the Isthmus took such shape as to change the problem.

The Isthmus was seething with revolutionary spirit. The central government of the Republic of Colombia was inefficient and corrupt. Lawlessness had long been dominant in every branch. During a period of something like 70 years there had been only one or two instances in which a president had served out his term. The Republic had repeatedly undergone internal convulsions which completely changed its aspect. Our Government first entered into a treaty with the possessors of the Isthmus of Panama in 1846. At that time the nation with which we treated was known as New Granada. After a while New Granada split up and the Republic of Columbia, another confederation, took its place; and Panama was at one time a sovereign state and at another time a mere department of the consecutive confederations known as Colombia and New Granada. In addition to scores of revolutions which affected successively New Granada and Columbia as a whole, the Isthmus of Panama during 57 years saw 53 revolutions, re-

bellions, insurrections, civil wars, and other outbreaks, some of the revolutions being successful, some unsuccessful, one civil war lasting nearly three years and another nearly a year. Twice there had been attempted secessions of Panama, and on six different occasions the marines and sailors from United States warships were forced to land on the Isthmus in order to protect property and to see that transit across the Isthmus was kept clear, a duty we were by treaty required to perform, for by treaty we already possessed and exercised on the Isthmus certain proprietary rights and sovereign powers which no other nation possessed. On four different occasions the Government of Colombia itself requested the landing of troops to protect its interests and to maintain order on the Isthmus—the order which it was itself incompetent to maintain. On several different occasions only the attitude of the United States prevented European powers from interfering on the Isthmus. In short, Colombia had shown itself utterly incompetent to perform the ordinary governmental duties expected of a civilized State; and yet it refused to permit the building of the canal under conditions which would have perpetuated its control of the Isthmus and which would at the same time have put a stop to what can legitimately be called government by a succession of banditti. The United States would have shown itself criminal, as well as impotent, if it had longer tolerated this condition of things.

I was prepared to advocate our openly avowing that the position had become intolerable, and that, in pursuance of our duty to ourselves as well as to the world, we should begin the building of the canal. But my knowledge—a knowledge which, as regards most of the essential points, was shared by all intelligent and informed people—of the feeling on the Isthmus was such that I was quite prepared to see the people of the Isthmus themselves act in such a way as to make our task easier. They felt that it was of vital importance to them to have the canal built, for they would be its greatest beneficiaries; and therefore they felt such bitter indignation at Colombia's indifference to their interests and refusal to permit the fruition of their hopes that among them there was a literally unanimous desire for independence. Not only was there not a single man on the Isthmus who wished to perpetuate Colombian control, but all Colombians sent hither, even the soldiers, after a very short residence grew to share the desire of all Panamans for the establishment of a separate republic. Hitherto the knowledge that the United States would interfere to stop all disturbances on the Isthmus that interrupted traffic across it had re-

sulted to the benefit of Colombia, and it was this knowledge that had been the chief preventive of revolutionary outbreak. The people of Panama now found themselves in a position in which their interests were identical with the interests of the United States, for the Government of Colombia, with elaborate care, and with a shortsightedness equal to its iniquity, had followed out to its end the exact policy which rendered it morally impossible as well as morally improper for the United States to continue to exercise its power in the interest of Colombia and against its own interest and the interest of Panama. There was no need for any outsider to excite revolution in Panama. There were dozens of leaders on the Isthmus already doing their best to excite revolution. It was not a case of lighting a fuse that would fire a mine—there were dozens of such fuses being lit all the time; it was simply a case of its ceasing to be the duty of the United States to stamp on these fuses, or longer to act in the interest of those who had become the open and malignant foes of the United States—and of civilization and of the world at large.

Every man who read the newspapers knew that with the failure of Colombia to ratify the Hay-Herran treaty, revolutionary attempts became imminent on the Isthmus. The papers published on the Isthmus themselves contained statements that these revolutions were about to occur, and these statements were published in the Washington and New York and New Orleans papers. From these published statements it appeared that if the canal treaty fell through, a revolution would in all probability follow, that hundreds of stacks of arms were being imported, that the Government forces in Panama and Colon were themselves friendly to the revolution, and that there were several distinct and independent centers of revolutionary activity on the Isthmus. It was also announced that the Government at Colombia was hurrying preparations to send troops to Panama to put down the revolution. Of course I did not have to rely merely upon what I saw in the newspapers. From various sources I had gathered enough to satisfy me that the situation was at least as bad as the papers depicted it. Through two Army officers who had visited the Isthmus in September I gained concrete and definite information. They informed me that, owing to the dissatisfaction because of the failure of Colombia to ratify the Hay-Herran treaty, a revolution was certain to break out on the Isthmus, and that the people were in favor of it, and that it might be expected immediately on the adjournment of the Colombian Congress without ratification of the treaty. In response to my questioning

they said they were certain that a revolution—several different revolutionary movements were being planned independently of one another—would occur immediately after the adjournment of the Colombian Congress in October; while on the Isthmus they had calculated that it would not occur until after October 20, because not until then would a sufficient quantity of arms and munitions have been landed to supply the revolutionaries. Acting in view of all these facts, I sent various naval vessels to the Isthmus. The orders to the American naval officers were to maintain free and uninterrupted transit across the Isthmus, and, with that purpose, to prevent the landing of armed forces with hostile intent at any point within 50 miles of Panama. These orders were precisely such as had been issued again and again in preceding years—1900, 1901, and 1902, for instance. They were carried out. Their necessity was conclusively shown by the fact that a body of Colombian troops had landed at Colon and threatened a reign of terror, announcing their intention of killing all the American citizens in Colon. The prompt action of Capt. Hubbard, of the gunboat *Nashville*, prevented this threat from being put into effect; he rescued the imperiled Americans, and finally persuaded the Colombian troops to reembark and peacefully return to Colombia.

With absolute unanimity the people of the Isthmus declared themselves an independent republic, and offered immediately to conclude with our Government the treaty which Colombia had rejected, and to make its terms somewhat more favorable to the United States. No bloodshed whatever had occurred, and it could not occur unless we permitted Colombian troops to land. The Republic of Panama was the *de facto* Government and there was no other on the Isthmus. There were, therefore, two courses open to us. One was to turn against the people who were our friends, to abandon them, and permit the people who were our foes to reconquer Panama, with frightful bloodshed and destruction of property, and thereby to reestablish and perpetuate the anarchic despotism of the preceding 50 years—inefficient, bloody, and corrupt. The other course was to let our foes pay the penalty of their own folly and iniquity and to stand by our friends, and, as an incident, to prevent all bloodshed and disturbance on the Isthmus by simply notifying Colombia that it would not be permitted to land troops on Panama. Of course we adopted the latter alternative. To have adopted any other course would have been an act not merely of unspeakable folly but of unspeakable baseness; it would have been even more ridiculous than infamous. We recognized the

Republic of Panama. Without firing a shot we prevented a civil war. We promptly negotiated a treaty under which the canal is now being dug. In consequence Panama has for eight years enjoyed a degree of peace and prosperity which it had never before enjoyed during its four centuries of troubled existence. Be it remembered that unless I had acted exactly as I did act there would now be no Panama Canal. It is folly to assert devotion to an end, and at the same time to condemn the only means by which the end can be achieved. Every man who at any stage has opposed or condemned the action actually taken in acquiring the right to dig the canal has really been the opponent of any and every effort that could ever have been made to dig the canal. Such critics are not straightforward or sincere unless they announce frankly that their criticism of methods is merely a mask and that at bottom what they are really criticising is having the canal dug at all.

The United States has done very much more than its duty to Colombia. Although Colombia had not the slightest claim to consideration of any kind, yet, in the interests of Panama, and so as to close all possible grounds of dispute between Panama and Colombia, the United States some time ago agreed to a tripartite treaty between herself, Colombia, and Panama, by which, as a simple matter of grace and not of right, adequate and generous compensation would have been given Colombia for whatever damage she had suffered; but Colombia refused to agree to the treaty. On this occasion, in my judgment, the United States went to the very verge of right and propriety in the effort to safeguard Panama's interests by making Colombia feel satisfied. There was not the slightest moral obligation on the United States to go as far as she went; and at the time it seemed to me a grave question whether it was not putting a premium upon international blackmail to go so far. Certainly nothing more should be done. There is no more reason for giving Colombia money to soothe her feelings for the loss of what she forfeited by her misconduct in Panama in 1903 than for giving Great Britain money for what she lost in 1776. Moreover, there is always danger that in such cases an act of mere grace and generosity may be misinterpreted by the very people on whose behalf it is performed, and treated as a confession of wrongdoing. We are now so far away from 1776 that this objection does not apply in that case, and there would be no particular reason why any sentimental persons who feel so inclined should not agitate to have Great Britain paid for the nervous strain and loss of property consequent upon our action in that year and the

immediately subsequent years. But we are still too near the Panama incident to be entirely certain that base people would not misunderstand our taking such action in her case; and as there was literally and precisely as much moral justification for what we did in Panama in 1903 as for what we did in our own country in 1776—and, indeed, even more justification—it is as foolish now to claim that Colombia is entitled, or ever has been entitled, to one dollar because of that transaction as to claim that Great Britain is entitled to be compensated because of the Declaration of Independence.

Not only was the course followed as regards Panama right in every detail and at every point,

but there could have been no variation from this course except for the worse. We not only did what was technically justifiable, but we did what was demanded by every ethical consideration, national and international. We did our duty by the world, we did our duty by the people of Panama, we did our duty by ourselves. We did harm to no one save as harm is done to a bandit by a policeman who deprives him of his chance for blackmail. The United States has many honorable chapters in its history, but no more honorable chapter than that which tells of the way in which our right to dig the Panama Canal was secured and of the manner in which the work itself has been carried out.

## *COROLLARY TO THE MONROE DOCTRINE*

IN 1823, James Monroe declared the Western Hemisphere closed to European colonizers. Henceforth, any European effort to subvert the independence of an American nation or to extend European systems across the Atlantic would be considered an unfriendly act by the United States. This seemed plain enough; but by 1905 the Monroe Doctrine was being given a new reading.

For by 1905, nations had discovered that defaulted debts were as serviceable an entering wedge for the establishment of political control as had been the "factories" of the old trading companies. And Latin America was admirably suited for such ventures in the development of trade. Though constitutional in form, many Latin American governments were military dictatorships in fact. The ruling elements in those dictatorships won profit from their power, a fact which encouraged violent struggles for control of governments and indiscretion in the incurring of debt.

Political instability and defaulted payments on such obligations had established a pattern for foreign intervention as early as the 1850s. In 1902, the principal foreign creditors of dictator-ridden Venezuela delivered an ultimatum, withdrew their legations, and planned to seize the Venezuelan gunboats and then blockade Venezuelan ports unless the nation made good her debts and paid an indemnity

for damage to the property and persons of foreigners. Though Great Britain took the lead in advocating intervention, it was Germany which, in 1901, informed the United States that Venezuelan default might force temporary seizure of the country's customs houses. Not until the following year did the Germans proceed to action, however, and action was then taken jointly with Great Britain, whose leaders had declared they did not intend to land troops or occupy Venezuelan territory. In December, 1902, the British, German, and Italian governments ordered a formal blockade. The American government, in the meantime, had been making efforts to prevent prolonged display of force. American bankers attempted to arrange a financial settlement; the American ambassadors at Berlin and in London transmitted an indefinite Venezuelan proposal for arbitration. After some hedging, and with the reservation of certain claims, both Britain and Germany finally justified the United States hope that the Powers would agree to arbitrate.

The Venezuelan government, which had insisted that the claims be settled in her courts and according to her law, was thus forced to submit to a diplomatic settlement. The United States refused to serve as arbitrator, though both sides requested her to act. Part of the controversy was referred to the Hague Tri-

bunal accordingly and the remainder to a mixed claims commission.

It was after this incident that the Roosevelt Corollary to the Monroe Doctrine began to take shape. Again, debt and disorder provoked foreign intervention and again the United States was involved in the controversy. In this instance, it was Santo Domingo which precipitated the conflict. The dictator in power until 1899 had borrowed far beyond Santo Domingo's ability to pay interest out of current revenues. The men who seized the government, when assassination ended the dictator's thirteen years of rule, proceeded to repudiate the debt he had incurred and to use the Dominican revenues for their own benefit. Quarrels among the revolutionary leaders kept the island in disorder even after a two-year civil war had abated: intrigue continued; foreign creditors pressed their governments to help them collect. In 1901, the receipts of specific customs houses were pledged to the French and Belgian governments. Two years later, the German, Italian, and Spanish governments secured a pledge of monthly payments from customs to their nationals. In 1904, the arbitrators appointed to devise the manner of paying the \$4,500,000 owed the Santo Domingo Improvement Company, an American firm, decided that in default of payment, the company was to have a customs house assigned to it. Since this threatened the lien of the other foreign claimants, European intervention seemed likely. To prevent that, the Dominican President turned to the United States on the assumption that American financial agents in his customs houses might assure the stability of his government.

It was the suggestion of the United States Minister, at the direction of Secretary of State John Hay, which finally urged the Dominican President to a course opposed by his cabinet and people. Though even Roosevelt was not eager for American intervention in the Dominican tangle, the danger of a possible foreign intervention on the Venezuelan pattern won him to action. On December 2, 1904, in his

message to Congress, Roosevelt made this bold announcement:

"If a nation shows that it knows how to act with reasonable efficiency and decency in social and political matters, if it keeps order and pays its obligations, it need fear no interference from the United States. Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power."

That month, Roosevelt dispatched a naval officer as special commissioner to Santo Domingo. Discussions now were opened up and a treaty was negotiated. It provided for United States control of Dominican customs houses: 55 percent of their revenues were to be turned over to the country's creditors while the government received the remainder.

In the light of these events, the Venezuela affair and the opening of construction of the Panama Canal, one may read Roosevelt's special message to the Senate with greater appreciation of its significance. The treaty failed in spite of that appeal. Foreign creditors again threatened when an Italian cruiser arrived off the coast of Santo Domingo. An executive agreement then provided for the President of the United States to name receivers of customs, who would be appointed by the President of Santo Domingo. These receivers were to dispose of the Dominican revenues according to the terms of the treaty which had failed of ratification. In his second message on Dominican affairs, which is reprinted here, Roosevelt expounded the Latin American policy which came to be known as the Roosevelt Corollary to the Monroe Doctrine: to prevent foreign intervention, the United States would itself intervene to restore order and financial decorum in those Latin American countries

whose behavior might provoke action by European powers.

In spite of American supervision of the customs, disorder continued in Santo Domingo until 1906, when the long period of revolution finally came to a halt. The following year, the Senate ratified a revised treaty. This deleted such objectionable clauses as that which pledged United States assistance in the internal affairs of Santo Domingo and which had the United States agree to determine the validity of the amount of the claims against the island republic.

In this fashion, according to Roosevelt, the Monroe Doctrine was to be used against Latin American powers as much as against European. As a consequence, it was difficult to break down suspicion and hostility in the Western Hemisphere; for twenty-five years, "Yankee Imperialism" was the unflattering description of the American policy. But late in the nineteen twenties, the direction of American foreign affairs became more realistic: the Latin American nations were sovereign powers and their domestic concerns were their own; they were as interested in safeguarding the security of the Western Hemisphere as we were. In March,

1930, the State Department, therefore, repudiated the Roosevelt Corollary. It made public a memorandum written by J. Reuben Clark in 1928 when he was Undersecretary of State, which clearly defined the intentions and limits of the Monroe Doctrine. Said this document: 1. The Monroe Doctrine is unilateral. 2. "The Doctrine does not concern itself with purely inter-American relations." 3. "The Doctrine states a case of the United States *versus* Europe, not of the United States *versus* Latin America." 4. The United States has always used the Doctrine to protect Latin American nations from the aggressions of European powers. 5. The Roosevelt Corollary is not properly a part of the Doctrine itself, nor does it grow out of the Doctrine: ". . . it is not believed that this Corollary is justified by the terms of the Monroe Doctrine, however much it may be justified by the application of the doctrine of self-preservation." Thus Secretary of State Henry L. Stimson, preparing the way for Franklin D. Roosevelt's "Good Neighbor" policy.

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### *Corollary to the Monroe Doctrine*

BY THEODORE ROOSEVELT

ONE OF THE MOST effective instruments for peace is the Monroe Doctrine as it has been and is being gradually developed by this Nation and accepted by other nations. No other policy could have been as efficient in promoting peace in the Western Hemisphere and in giving to each nation thereon the chance to develop along its own lines. If we had refused to apply the doctrine to changing conditions it would now be completely outworn, would not meet any of the needs of the present day, and, indeed, would probably by this time have sunk into complete oblivion. It is useful at home, and is meeting with recognition abroad because we have adapted our application of it to meet the growing and changing needs of the hemisphere. When we announce a policy such as the Monroe Doctrine we thereby commit ourselves to the consequences of the policy, and those

consequences from time to time alter. It is out of the question to claim a right and yet shirk the responsibility for its exercise. Not only we, but all American republics who are benefited by the existence of the doctrine, must recognize the obligations each nation is under as regards foreign peoples no less than its duty to insist upon its own rights.

That our rights and interests are deeply concerned in the maintenance of the doctrine is so clear as hardly to need argument. This is especially true in view of the construction of the Panama Canal. As a mere matter of self-defense we must exercise a close watch over the approaches to this canal; and this means that we must be thoroughly alive to our interests in the Caribbean Sea.

There are certain essential points which must



never be forgotten as regards the Monroe Doctrine. In the first place we must as a Nation make it evident that we do not intend to treat it in any shape or way as an excuse for aggrandizement on our part at the expense of the republics to the south. We must recognize the fact that in some South American countries there has been much suspicion lest we should interpret the Monroe Doctrine as in some way inimical to their interests, and we must try to convince all the other nations of this continent once and for all that no just and orderly Government has anything to fear from us. There are certain republics to the south of us which have already reached such a point of stability, order, and prosperity that they themselves, though as yet hardly consciously, are among the guarantors of this doctrine. These republics we now meet not only on a basis of entire equality, but in a spirit of frank and respectful friendship, which we hope is mutual. If all of the republics to the south of us will only grow as those to which I allude have already grown, all need for us to be the especial champions of the doctrine will disappear, for no stable and growing American Republic wishes to see some great non-American military power acquire territory in its neighborhood. All that this country desires is that the other republics on this continent shall be happy and prosperous; and they cannot be happy and prosperous unless they maintain order within their boundaries and behave with a just regard for their obligations toward outsiders. It must be understood that under no circumstances will the United States use the Monroe Doctrine as a cloak for territorial aggression. We desire peace with all the world, but perhaps most of all with the other peoples of the American Continent. There are, of course, limits to the wrongs which any self-respecting nation can endure. It is always possible that wrong actions toward this Nation, or toward citizens of this Nation, in some State unable to keep order among its own people, unable to secure justice from outsiders, and unwilling to do justice to those outsiders who treat it well, may result in our having to take action to protect our rights; but such action will not be taken with a view to territorial aggression, and it will be taken at all only with extreme reluctance and when it has become evident that every other resource has been exhausted.

Moreover, we must make it evident that we do not intend to permit the Monroe Doctrine to be used by any nation on this Continent as a shield to protect it from the consequences of its own misdeeds against foreign nations. If a republic to the south of us commits a tort against a foreign nation,

such as an outrage against a citizen of that nation, then the Monroe Doctrine does not force us to interfere to prevent punishment of the tort, save to see that the punishment does not assume the form of territorial occupation in any shape. The case is more difficult when it refers to a contractual obligation. Our own Government has always refused to enforce such contractual obligations on behalf of its citizens by an appeal to arms. It is much to be wished that all foreign governments would take the same view. But they do not; and in consequence we are liable at any time to be brought face to face with disagreeable alternatives. On the one hand, this country would certainly decline to go to war to prevent a foreign government from collecting a just debt; on the other hand, it is very inadvisable to permit any foreign power to take possession, even temporarily, of the custom houses of an American Republic in order to enforce the payment of its obligations; for such temporary occupation might turn into a permanent occupation. The only escape from these alternatives may at any time be that we must ourselves undertake to bring about some arrangement by which so much as possible of a just obligation shall be paid. It is far better that this country should put through such an arrangement, rather than allow any foreign country to undertake it. To do so insures the defaulting republic from having to pay debt of an improper character under duress, while it also insures honest creditors of the republic from being passed by in the interest of dishonest or grasping creditors. Moreover, for the United States to take such a position offers the only possible way of insuring us against a clash with some foreign power. The position is, therefore, in the interest of peace as well as in the interest of justice. It is of benefit to our people; it is of benefit to foreign peoples; and most of all it is really of benefit to the people of the country concerned.

This brings me to what should be one of the fundamental objects of the Monroe Doctrine. We must ourselves in good faith try to help upward toward peace and order those of our sister republics which need such help. Just as there has been a gradual growth of the ethical element in the relations of one individual to another, so we are, even though slowly, more and more coming to recognize the duty of bearing one another's burdens, not only as among individuals, but also as among nations.

Santo Domingo, in her turn, has now made an appeal to us to help her, and not only every principle of wisdom but every generous instinct within us bids us respond to the appeal. It is not of the



slightest consequence whether we grant the aid needed by Santo Domingo as an incident to the wise development of the Monroe Doctrine or because we regard the case of Santo Domingo as standing wholly by itself, and to be treated as such, and not on general principles or with any reference to the Monroe Doctrine. The important point is to give the needed aid, and the case is certainly sufficiently peculiar to deserve to be judged purely on its own merits. The conditions in Santo Domingo have for a number of years grown from bad to worse until a year ago all society was on the verge of dissolution. Fortunately, just at this time a ruler sprang up in Santo Domingo, who, with his colleagues, saw the dangers threatening their country and appealed to the friendship of the only great and powerful neighbor who possessed the power, and as they hoped also the will to help them. There was imminent danger of foreign intervention. The previous rulers of Santo Domingo had recklessly incurred debts, and owing to her internal disorders she had ceased to be able to provide means of paying the debts. The patience of her foreign creditors had become exhausted, and at least two foreign nations were on the point of intervention, and were only prevented from intervening by the unofficial assurance of this Government that it would itself strive to help Santo Domingo in her hour of need. In the case of one of these nations, only the actual opening of negotiations to this end by our Government prevented the seizure of territory in Santo Domingo by a European power. Of the debts incurred some were just, while some were not of a character which really renders it obligatory on or proper for Santo Domingo to pay them in full. But she could not pay any of them unless some stability was assured her Government and people.

Accordingly, the Executive Department of our Government negotiated a treaty under which we are to try to help the Dominican people to straighten out their finances. This treaty is pending before the Senate. In the meantime a temporary arrangement has been made which will last until the Senate has had time to take action upon the treaty. Under this arrangement the Dominican Government has appointed Americans to all the important positions in the customs service, and they are seeing to the honest collection of the revenues, turning over 45 per cent. to the Government for running expenses and putting the other 55 per cent. into a safe depository for equitable division in case the treaty shall be ratified, among the various creditors, whether European or American.

The Custom Houses offer well-nigh the only sources of revenue in Santo Domingo, and the different revolutions usually have as their real aim the obtaining of these Custom Houses. The mere fact that the Collectors of Customs are Americans, that they are performing their duties with efficiency and honesty, and that the treaty is pending in the Senate gives a certain moral power to the Government of Santo Domingo which it has not had before. This has completely discouraged all revolutionary movement, while it has already produced such an increase in the revenues that the Government is actually getting more from the 45 per cent. that the American Collectors turn over to it than it got formerly when it took the entire revenue. It is enabling the poor, harassed people of Santo Domingo once more to turn their attention to industry and to be free from the cure of interminable revolutionary disturbance. It offers to all bona-fide creditors, American and European, the only really good chance to obtain that to which they are justly entitled, while it in return gives to Santo Domingo the only opportunity of defense against claims which it ought not to pay, for now if it meets the views of the Senate we shall ourselves thoroughly examine all these claims, whether American or foreign, and see that none that are improper are paid. There is, of course, opposition to the treaty from dishonest creditors, foreign and American, and from the professional revolutionists of the island itself. We have already reason to believe that some of the creditors who do not dare expose their claims to honest scrutiny are endeavoring to stir up sedition in the island and opposition to the treaty. In the meantime, I have exercised the authority vested in me by the joint resolution of the Congress to prevent the introduction of arms into the island for revolutionary purposes.

Under the course taken, stability and order and all the benefits of peace are at last coming to Santo Domingo, danger of foreign intervention has been suspended, and there is at last a prospect that all creditors will get justice, no more and no less. If the arrangement is terminated by the failure of the treaty chaos will follow; and if chaos follows, sooner or later this Government may be involved in serious difficulties with foreign Governments over the island, or else may be forced itself to intervene in the island in some unpleasant fashion. Under the proposed treaty the independence of the island is scrupulously respected, the danger of violation of the Monroe Doctrine by the intervention of foreign powers vanishes, and the interference of our Government is minimized, so that we

shall only act in conjunction with the Santo Domingo authorities to secure the proper administration of the customs, and therefore to secure the payment of just debts and to secure the Dominican Government against demands for unjust debts. The proposed method will give the people of Santo Domingo the same chance to move onward and upward which we have already given to the

people of Cuba. It will be doubly to our discredit as a Nation if we fail to take advantage of this chance; for it will be of damage to ourselves, and it will be of incalculable damage to Santo Domingo. Every consideration of wise policy, and, above all, every consideration of large generosity, bids us meet the request of Santo Domingo as we are now trying to meet it. . . .

### *Message to the Senate on the Dominican Treaty*

White House, March 6, 1905

#### TO THE SENATE:

I wish to call the attention of the Senate at this executive session to the treaty with Santo Domingo. I feel that I ought to state to the Senate that the condition of affairs in Santo Domingo is such that it is very much for the interest of that Republic that action on the treaty should be had at as early a moment as the Senate, after giving the matter full consideration, may find practicable.

I call attention to the following facts:

1. This treaty was entered into at the earnest request of Santo Domingo itself, and is designed to afford Santo Domingo relief and assistance. Its primary benefit will be to Santo Domingo. It offers the method most likely to secure peace and to prevent war in the island.

2. The benefit to the United States will consist chiefly in the tendency under the treaty to secure stability, order, and prosperity in Santo Domingo, and the removal of the apprehension lest foreign powers make aggressions on Santo Domingo in the course of collecting claims due their citizens; for it is greatly to our interest that all the islands in the Caribbean Sea should enjoy peace and prosperity and feel good will toward this country. The benefit to honest creditors will come from the fact that for the first time under this treaty a practicable method of attempting to settle the debts due them will be inaugurated.

3. Many of the debts alleged to be due from Santo Domingo to outside creditors unquestionably on their face represent far more money than ever was actually given Santo Domingo. The proposed treaty provides for a process by which impartial experts will determine what debts are valid and what are in whole or in part invalid, and will apportion accordingly the surplus revenue available for the payment of the debts. This treaty offers the only method for preventing the collection of fraudulent debts, whether owed to Americans or to citizens of other nations.

4. This treaty affords the most practicable means

of obtaining payment for the just claims of American citizens.

5. If the treaty is ratified, creditors belonging to other nations will have exactly as good treatment as creditors who are citizens of the United States, and at the same time Santo Domingo will be protected against unjust and exorbitant claims. If it is not ratified, the chances are that American creditors will fare ill as compared with those of other nations; for foreign nations, being denied the opportunity to get what is rightfully due their citizens under the proposed arrangement, will be left to collect the debts due their citizens as they see fit, provided, of course, there is not permanent occupancy of Dominican territory. As in such case the United States will have nothing to say as to what debts should or should not be collected, and as Santo Domingo will be left without aid, assistance, or protection, it is impossible to state that the sums collected from it will not be improper in amount. In such event, whatever is collected by means of forcible intervention will be applied to the creditors of foreign nations in preference to creditors who are citizens of the United States.

6. The correspondence between the Secretary of State and the Minister of Haiti, submitted to the Senate several days ago, shows that our position is explicitly and unreservedly that under no circumstances do we intend to acquire territory in or possession of either Haiti or Santo Domingo, it being stated in these letters that even if the two republics desired to become a part of the United States the United States would certainly refuse its assent.

7. Santo Domingo grievously needs the aid of a powerful and friendly nation. This aid we are able, and I trust that we are willing, to bestow. She has asked for this aid, and the expressions of friendship, repeatedly sanctioned by the people and the Government of the United States, warrant her in believing that it will not be withheld in the hour of her need.

Theodore Roosevelt

## WOODROW WILSON

BETWEEN April 2, 1917, and July 10, 1919, when Wilson made these two speeches, the United States had entered World War I and had helped win it. But the interval stood for more than that: for an instrument presumably had been created by which war was to be driven from the earth. Woodrow Wilson offered the world peace, and it was no wonder that simple people all over the earth honored his name.

But the mechanics of peace were far more complex than affirmations of devotion no matter how splendid. Highly intricate treaties had to be drawn up with a whole series of defeated belligerents; sporadic uprisings all over Europe had to be put down; treaties had to be ratified. Most important of all, the League of Nations, whose Covenant Wilson brought back with him to America from the Versailles Peace Conference, had to be joined by the United States to insure the establishment of a peaceful world.

Wilson had made a number of mistakes. In the congressional elections of November, 1918, he had gone to the country and asked for the return of a Democratic Congress; only such a body would support him properly. He had been defeated—and his political enemies glee-

fully insisted that this was tantamount to a repudiation of his policies by the American people. Again, he had failed to name members of the Senate to his Peace Commission—a slight of the Senate's role in the treaty-making process. Again, he had insisted upon coupling the Covenant with the Treaty—and the weaknesses and injustices in the Treaty only ended by damaging the Covenant. Finally, he had been adamant on the matter of amendments to the Covenant; although the good faith of some of those who urged reservations and amendments is open to question.

These were failures of judgment, but they showed no vital flaws of character. If Wilson's political enemies had been less implacable and if his health had not failed him, he might have succeeded and America might have joined the League. In any case, the two speeches reveal Wilson at the height of his powers. He was calling upon America to join in a great human crusade and to give of its strength and leadership in the cause of an enduring world peace.

The selections here reprinted are from R. S. Baker and W. E. Dodd, eds., *The Public Papers of Woodrow Wilson* (6 vols., New York, 1927) and are published by permission of Harper and Brothers.

*Two Addresses to Congress*

BY WOODROW WILSON

I. FOR DECLARATION OF WAR AGAINST GERMANY  
(ADDRESS DELIVERED AT A JOINT SESSION OF THE  
TWO HOUSES OF CONGRESS, APRIL 2, 1917)

I HAVE CALLED the Congress into extraordinary session because there are serious, very serious, choices of policy to be made, and made immediately, which it was neither right nor constitutionally permissible that I should assume the responsibility of making.

On the third of February last I officially laid before you the extraordinary announcement of the Imperial German Government that on and after the first day of February it was its purpose to put

aside all restraints of law or of humanity and use its submarines to sink every vessel that sought to approach either the ports of Great Britain and Ireland or the western coasts of Europe or any of the ports controlled by the enemies of Germany within the Mediterranean. . . .

I was for a little while unable to believe that such things would in fact be done by any government that had hitherto subscribed to the humane practices of civilized nations. International law had its origin in the attempt to set up some law which would be respected and observed upon the seas, where no nation had right of domination and where lay the free highways of the world. By pain-

ful stage after stage has that law been built up, with meager enough results, indeed, after all was accomplished that could be accomplished, but always with a clear view, at least, of what the heart and conscience of mankind demanded. This minimum of right the German Government has swept aside under the plea of retaliation and necessity and because it had no weapons which it could use at sea except these which it is impossible to employ as it is employing them without throwing to the winds all scruples of humanity or of respect for the understandings that were supposed to underlie the intercourse of the world. I am not now thinking of the loss of property involved, immense and serious as that is, but only of the wanton and wholesale destruction of the lives of non-combatants, men, women, and children, engaged in pursuits which have always, even in the darkest periods of modern history, been deemed innocent and legitimate. Property can be paid for; the lives of peaceful and innocent people cannot be. The present German submarine warfare against commerce is a warfare against mankind.

It is a war against all nations. American ships have been sunk, American lives taken, in ways which it has stirred us very deeply to learn of, but the ships and people of other neutral and friendly nations have been sunk and overwhelmed in the waters in the same way. There has been no discrimination. The challenge is to all mankind. Each nation must decide for itself how it will meet it. The choice we make for ourselves must be made with a moderation of counsel and a temperateness of judgment befitting our character and our motives as a nation. We must put excited feeling away. Our motive will not be revenge or the victorious assertion of the physical might of the nation, but only the vindication of right, of human right, of which we are only a single champion.

When I addressed the Congress on the twenty-sixth of February last I thought that it would suffice to assert our neutral rights with arms, our right to use the seas against unlawful interference, our right to keep our people safe against unlawful violence. But armed neutrality, it now appears, is impracticable. Because submarines are in effect outlaws when used as the German submarines have been used against merchant shipping, it is impossible to defend ships against their attacks as the law of nations has assumed that merchantmen would defend themselves against privateers or cruisers, visible craft giving chase upon the open sea. . . . There is one choice we cannot make, we are incapable of making: we will not choose the path of submission and suffer the most sacred rights of our Nation and our people to be ignored

or violated. The wrongs against which we now array ourselves are no common wrongs; they cut to the very roots of human life.

With a profound sense of the solemn and even tragical character of the step I am taking and of the grave responsibilities which it involves, but in unhesitating obedience to what I deem my constitutional duty, I advise that the Congress declare the recent course of the Imperial German Government to be in fact nothing less than war against the government and people of the United States; that it formally accept the status of belligerent which has thus been thrust upon it; and that it take immediate steps not only to put the country in a more thorough state of defense but also to exert all its power and employ all its resources to bring the Government of the German Empire to terms and end the war. . . .

While we do these things, these deeply momentous things, let us be very clear, and make very clear to all the world what our motives and our objects are. My own thought has not been driven from its habitual and normal course by the unhappy events of the last two months, and I do not believe that the thought of the Nation has been altered or clouded by them. I have exactly the same things in mind now that I had in mind when I addressed the Senate on the twenty-second of January last; the same that I had in mind when I addressed the Congress on the third of February and on the twenty-sixth of February. Our object now, as then, is to vindicate the principles of peace and justice in the life of the world as against selfish and autocratic power and to set up amongst the really free and self-governed peoples of the world such a concert of purpose and of action as will henceforth insure the observance of those principles. Neutrality is no longer feasible or desirable where the peace of the world is involved and the freedom of its peoples, and the menace to that peace and freedom lies in the existence of autocratic governments backed by organized force which is controlled wholly by their will, not by the will of their people. We have seen the last of neutrality in such circumstances. We are at the beginning of an age in which it will be insisted that the same standards of conduct and of responsibility for wrong done shall be observed among nations and their governments that are observed among the individual citizens of civilized states.

We have no quarrel with the German people. We have no feeling towards them but one of sympathy and friendship. It was not upon their impulse that their government acted in entering this war. It was not with their previous knowledge

or approval. It was a war determined upon as wars used to be determined upon in the old, unhappy days when peoples were nowhere consulted by their rulers and wars were provoked and waged in the interest of dynasties or of little groups of ambitious men who were accustomed to use their fellow men as pawns and tools. Self-governed nations do not fill their neighbor states with spies or set the course of intrigue to bring about some critical posture of affairs which will give them an opportunity to strike and make conquest. Such designs can be successfully worked out only under cover and where no one has the right to ask questions. Cunningly contrived plans of deception or aggression, carried, it may be, from generation to generation, can be worked out and kept from the light only within the privacy of courts or behind the carefully guarded confidences of a narrow and privileged class. They are happily impossible where public opinion commands and insists upon full information concerning all the nation's affairs. . . .

One of the things that has served to convince us that the Prussian autocracy was not and could never be our friend is that from the very outset of the present war it has filled our unsuspecting communities and even our offices of government with spies and set criminal intrigues everywhere afoot against our national unity of counsel, our peace within and without, our industries and our commerce. Indeed, it is now evident that its spies were here even before the war began; and it is unhappily not a matter of conjecture but a fact proved in our courts of justice that the intrigues which have more than once come perilously near to disturbing the peace and dislocating the industries of the country have been carried on at the instigation, with the support, and even under the personal direction of official agents of the Imperial Government accredited to the Government of the United States. Even in checking these things and trying to extirpate them we have sought to put the most generous interpretation possible upon them because we knew that their source lay not in any hostile feeling or purpose of the German people towards us (who were no doubt as ignorant of them as we ourselves were), but only in the selfish designs of a Government that did what it pleased and told its people nothing. But they have played their part in serving to convince us at last that that Government entertains no real friendship for us and means to act against our peace and security at its convenience. That it means to stir up enemies against us at our very doors the intercepted note to the German Minister at Mexico City is eloquent evidence.

We are accepting this challenge of hostile purpose because we know that in such a Government, following such methods, we can never have a friend; and that in the presence of its organized power, always lying in wait to accomplish we know not what purpose, there can be no assured security for the democratic Governments of the world. We are now about to accept gage of battle with this natural foe to liberty and shall, if necessary, spend the whole force of the Nation to check and nullify its pretensions and its power. We are glad, now that we see the facts with no veil of false pretense about them, to fight thus for the ultimate peoples, the German people included: for the rights of nations great and small and the privilege of men everywhere to choose their way of life and of obedience. The world must be made safe for democracy. Its peace must be planted upon the tested foundations of political liberty. We have no selfish ends to serve. We desire no conquest, no dominion. We seek no indemnities for ourselves, no material compensation for the sacrifices we shall freely make. We are but one of the champions of the rights of mankind. We shall be satisfied when those rights have been made as secure as the faith and the freedom of nations can make them.

Just because we fight without rancor and without selfish object, seeking nothing for ourselves but what we shall wish to share with all free peoples, we shall, I feel confident, conduct our operations as belligerents without passion and ourselves observe with proud punctilio the principles of right and of fair play we profess to be fighting for. . . .

It will be all the easier for us to conduct ourselves as belligerents in a high spirit of right and fairness because we act without animus, not in enmity towards a people or with the desire to bring any injury or disadvantage upon them, but only in armed opposition to an irresponsible government which has thrown aside all considerations of humanity and of right and is running amuck. We are, let me say again, the sincere friends of the German people, and shall desire nothing so much as the early reestablishment of intimate relations of mutual advantage between us,—however hard it may be for them, for the time being, to believe that this is spoken from our hearts. We have borne with their present Government through all these bitter months because of that friendship,—exercising a patience and forbearance which would otherwise have been impossible. We shall, happily, still have an opportunity to prove that friendship in our daily atti-

tude and actions towards the millions of men and women of German birth and native sympathy who live amongst us and share our life, and we shall be proud to prove it towards all who are in fact loyal to their neighbors and to the Government in the hour of test. They are, most of them, as true and loyal Americans as if they had never known any other fealty or allegiance. They will be prompt to stand with us in rebuking and restraining the few who may be of a different mind and purpose. If there should be disloyalty, it will be dealt with with a firm hand of stern repression; but, if it lifts its head at all, it will lift it only here and there and without countenance except from a lawless and malignant few.

It is a distressing and oppressive duty, Gentlemen of the Congress, which I have performed in thus addressing you. There are, it may be, many months of fiery trial and sacrifice ahead of us. It is a fearful thing to lead this great peaceful people into war, into the most terrible and disastrous of all wars, civilization itself seeming to be in the balance. But the right is more precious than peace, and we shall fight for the things which we have always carried nearest our hearts,—for democracy, for the right of those who submit to authority to have a voice in their own Governments, for the rights and liberties of small nations, for a universal dominion of right by such a concert of free peoples as shall bring peace and safety to all nations and make the world itself at last free. To such a task we can dedicate our lives and our fortunes, everything that we are and everything that we have, with the pride of those who know that the day has come when America is privileged to spend her blood and her might for the principles that gave her birth and happiness and the peace which she has treasured. God helping her, she can do no other.

2. PRESENTING THE TREATY FOR RATIFICATION (ADDRESS TO THE SENATE OF THE UNITED STATES, JULY 10, 1919)

GENTLEMEN OF THE SENATE:

The treaty of peace with Germany was signed at Versailles on the twenty-eighth of June. I avail myself of the earliest opportunity to lay the treaty before you for ratification and to inform you with regard to the work of the Conference by which that treaty was formulated. . . .

The United States entered the war upon a different footing from every other nation except our associates on this side the sea. We entered it, not because our material interests were directly threatened or because any special treaty obligations to which we were parties had been violated, but only

because we saw the supremacy, and even the validity, of right everywhere put in jeopardy and free government likely to be everywhere imperiled by the intolerable aggression of a power which respected neither right nor obligation and whose very system of government flouted the rights of the citizen as against the autocratic authority of his governors. And in the settlements of the peace we have sought no special reparation for ourselves, but only the restoration of right and the assurance of liberty everywhere that the effects of the settlement were to be felt. We entered the war as the disinterested champions of right and we interested ourselves in the terms of the peace in no other capacity.

The hopes of the nations allied against the Central Powers were at a very low ebb when our soldiers began to pour across the sea. There was everywhere amongst them, except in their stoutest spirits, a somber foreboding of disaster. The war ended in November, eight months ago, but you have only to recall what was feared in midsummer last, four short months before the armistice, to realize what it was that our timely aid accomplished alike for their morale and their physical safety. . . . A great moral force had flung itself into the struggle. The fine physical force of those spirited men spoke of something more than bodily vigor. They carried the great ideals of a free people at their hearts and with that vision were unconquerable. Their very presence brought reassurance, their fighting made victory certain. . . .

But I speak now of what they meant to the men by whose sides they fought and to the people with whom they mingled with such utter simplicity, as friends who asked only to be of service. They were for all the visible embodiment of America. What they did made America and all that she stood for a living reality in the thoughts not only of the people of France but also of tens of millions of men and women throughout all the toiling nations of a world standing everywhere in peril of its freedom and of the loss of everything it held dear, in deadly fear that its bonds were never to be loosed, its hopes forever to be mocked and disappointed.

An the compulsion of what they stood for was upon us who represented America at the peace table. It was our duty to see to it that every decision we took part in contributed, so far as we were able to influence it, to quiet the fears and realize the hopes of the peoples who had been living in that shadow, the nations that had come by our assistance to their freedom. It was our duty to do everything that it was within our power to do to make the triumph of freedom and of right a

lasting triumph in the assurance of which men might everywhere live without fear.

Old entanglements of every kind stood in the way,—promises which Governments had made to one another in the days when might and right were confused and the power of the victor was without restraint. Engagements which contemplated any dispositions of territory, any extensions of sovereignty that might seem to be to the interest of those who had the power to insist upon them, had been entered into without thought of what the peoples concerned might wish or profit by; and these could not always be honorably brushed aside. It was not easy to graft the new order of ideas on the old, and some of the fruits of the grafting may, I fear, for a time be bitter. But, with very few exceptions, the men who sat with us at the peace table desired as sincerely as we did to get away from the bad influences, the illegitimate purposes, the demoralizing ambitions, the international counsels and expedients out of which the sinister designs of Germany had sprung as a natural growth. . . .

The atmosphere in which the Conference worked seemed created, not by the ambitions of strong governments, but by the hopes and aspirations of small nations and of peoples hitherto under bondage to the power that victory had shattered and destroyed. Two great empires had been forced into political bankruptcy, and we were the receivers. Our task was not only to make peace with the Central Empires and remedy the wrongs their armies had done. The Central Empires had lived in open violation of many of the very rights for which the war had been fought, dominating alien peoples over whom they had no natural right to rule, enforcing, not obedience, but veritable bondage, exploiting those who were weak for the benefit of those who were masters and overlords only by force of arms. There could be no peace until the whole order of Central Europe was set right. . . .

And out of the execution of these great enterprises of liberty sprang opportunities to attempt what statesmen had never found the way before to do; an opportunity to throw safeguards about the rights of racial, national and religious minorities by solemn international covenant; an opportunity to limit and regulate military establishments where they were most likely to be mischievous; an opportunity to effect a complete and systematic internationalization of waterways and railways which were necessary to the free economic life of more than one nation and to clear many of the normal channels of commerce of unfair obstructions of law or of privilege; and the very welcome oppor-

tunity to secure for labor the concerted protection of definite international pledges of principle and practice.

These were not tasks which the Conference looked about it to find and went out of its way to perform. They were inseparable from the settlements of peace. They were thrust upon it by circumstances which could not be overlooked. The war had created them. In all quarters of the world old-established relationships had been disturbed or broken and affairs were at loose ends, needing to be mended or united again, but could not be made what they were before. They had to be set right by applying some uniform principle of justice or enlightened expediency. And they could not be adjusted by merely prescribing in a treaty what should be done. New states were to be set up which could not hope to live through their first period of weakness without assured support by the great nations that had consented to their creation and won for them their independence. Ill-governed colonies could not be put in the hands of governments which were to act as trustees for their people and not as their masters if there was to be no common authority among the nations to which they were to be responsible in the execution of their trust. Future international conventions with regard to the control of waterways, with regard to illicit traffic of many kinds, in arms or in deadly drugs, or with regard to the adjustment of many varying international administrative arrangements could not be assured if the treaty were to provide no permanent common international agency, if its execution in such matters was to be left to the slow and uncertain processes of coöperation by ordinary methods of negotiation. If the Peace Conference itself was to be the end of coöperative authority and common counsel among the governments to which the world was looking to enforce justice and give pledges of an enduring settlement, regions like the Saar basin could not be put under a temporary administrative régime which did not involve a transfer of political sovereignty and which contemplated a final determination of its political connections by popular vote to be taken at a distant date; no free city like Danzig could be created which was, under elaborate international guarantees, to accept exceptional obligations with regard to the use of its port and exceptional relations with a State of which it was not to form a part; properly safeguarded plebiscites could not be provided for where populations were at some future date to make choice what sovereignty they would live under; no certain and uniform method of arbitration could be secured for the settlement of anti-



pated difficulties of final decision with regard to many matters dealt with in the treaty itself; the long-continued supervision of the task of reparation which Germany was to undertake to complete within the next generation might entirely break down; the reconsideration and revision of administrative arrangements and restrictions which the treaty prescribed but which it was recognized might not prove of lasting advantage or entirely fair if too long enforced would be impracticable. The promises governments were making to one another about the way in which labor was to be dealt with, by law not only but in fact as well, would remain a mere humane thesis if there was to be no common tribunal of opinion and judgment to which liberal statesmen could resort for the influences which alone might secure their redemption. A league of free nations had become a practical necessity. Examine the treaty of peace and you will find that everywhere throughout its manifold provisions its framers have felt obliged to turn to the League of Nations as an indispensable instrumentality for the maintenance of the new order it has been their purpose to set up in the world,—the world of civilized men.

That there should be a League of Nations to steady the counsels and maintain the peaceful understandings of the world, to make, not treaties alone, but the accepted principles of international law as well, the actual rule of conduct among the governments of the world, had been one of the agreements accepted from the first as the basis of peace with the Central Powers. The statesmen of all the belligerent countries were agreed that such a league must be created to sustain the settlements that were to be effected. But at first I think there was a feeling among some of them that, while it must be attempted, the formation of such a league was perhaps a counsel of perfection which practical men, long experienced in the world of affairs, must agree to very cautiously and with many misgivings. It was only as the difficult work of arranging an all but universal adjustment of the world's affairs advanced from day to day from one stage of conference to another that it became evident to them that what they were seeking would be little more than something written upon paper, to be interpreted and applied by such methods as the chances of politics might make available if they did not provide a means of common counsel which all were obliged to accept, a common authority whose decisions would be recognized as decisions which all must respect.

And so the most practical, the most skeptical among them turned more and more to the League as the authority through which international ac-

tion was to be secured, the authority without which, as they had come to see it, it would be difficult to give assured effect either to this treaty or to any other international understanding upon which they were to depend for the maintenance of peace. The fact that the Covenant of the League was the first substantive part of the treaty to be worked out and agreed upon, while all else was in solution, helped to make the formulation of the rest easier. The Conference was, after all, not to be ephemeral. The concert of nations was to continue, under a definite Covenant which had been agreed upon and which all were convinced was workable. They could go forward with confidence to make arrangements intended to be permanent. The most practical of the conferees were at last the most ready to refer to the League of Nations the superintendence of all interests which did not admit of immediate determination, of all administrative problems which were to require a continuing oversight. What had seemed a counsel of perfection had come to seem a plain counsel of necessity. The League of Nations was the practical statesman's hope of success in many of the most difficult things he was attempting.

And it had validated itself in the thought of every member of the Conference as something much bigger, much greater every way, than a mere instrument for carrying out the provisions of a particular treaty. It was universally recognized that all the peoples of the world demanded of the Conference that it should create such a continuing concert of free nations as would make wars of aggression and spoliation such as this that has just ended forever impossible. A cry had gone out from every home in every stricken land from which sons and brothers and fathers had gone forth to the great sacrifice that such a sacrifice should never again be exacted. It was manifest why it had been exacted. It had been exacted because one nation desired dominion and other nations had known no means of defense except armaments and alliances. War had lain at the heart of every arrangement of the Europe,—of every arrangement of the world,—that preceded the war. Restive peoples had been told that fleets and armies, which they toiled to sustain, meant peace; and they now knew that they had been lied to: that fleets and armies had been maintained to promote national ambitions and meant war. They knew that no old policy meant anything else but force, force,—always force. And they knew that it was intolerable. Every true heart in the world, and every enlightened judgment demanded that, at whatever cost of independent action, every government that took thought for its people or for



justice or for ordered freedom should lend itself to a new purpose and utterly destroy the old order of international politics. Statesmen might see difficulties, but the people could see none and could brook no denial. A war in which they had been bled white to beat the terror that lay concealed in every Balance of Power must not end in a mere victory of arms and a new balance. The monster that had resorted to arms must be put in chains that could not be broken. The united power of free nations must put a stop to aggression, and the world must be given peace. If there was not the will or the intelligence to accomplish that now, there must be another and a final war and the world must be swept clean of every power that could renew the terror. The League of Nations was not merely an instrument to adjust and remedy old wrongs under a new treaty of peace; it was the only hope for mankind. Again and again had the demon of war been cast out of the house of the peoples and the house swept clean by a treaty of peace; only to prepare a time when he would enter in again with spirits worse than himself. The house must now be given a tenant who could hold it against all such. Convenient, indeed indispensable, as statesmen found the newly planned League of Nations to be for the execution of present plans of peace and reparation, they saw it in a new aspect before their work was finished. They saw it as the main object of the peace, as the only thing that could complete it or make it worth while. They saw it as the hope of the world, and that hope they did not dare to disappoint. Shall we or any other free people hesitate to accept this great duty? Dare we reject it and break the heart of the world?

And so the result of the Conference of Peace, so far as Germany is concerned, stands complete. The difficulties encountered were very many. Sometimes they seemed insuperable. It was impossible to accommodate the interests of so great a body of nations,—interests which directly or indirectly affected almost every nation in the world,—without many minor compromises. The treaty, as a result, is not exactly what we would have written. It is probably not what any one of the national delegations would have written. But results were worked out which on the whole bear test. I think that it will be found that the compromises which were accepted as inevitable nowhere cut to the heart of any principle. The work of the Conference squares, as a whole, with the principles agreed upon as the basis of the peace as well as with the practical possibilities of the international situations which had to be faced and dealt with as facts.

I shall presently have occasion to lay before you a special treaty with France, whose object is the temporary protection of France from unprovoked aggression by the Power with whom this treaty of peace has been negotiated. Its terms link it with this treaty. I take the liberty, however, of reserving it for special explication on another occasion.

The rôle which America was to play in the Conference seemed determined, as I have said, before my colleagues and I got to Paris,—determined by the universal expectations of the nations whose representatives, drawn from all quarters of the globe, we were to deal with. It was universally recognized that America had entered the war to promote no private or peculiar interest of her own but only as the champion of rights which she was glad to share with free men and lovers of justice everywhere. We had formulated the principles upon which the settlement was to be made,—the principles upon which the armistice had been agreed to and the parleys of peace undertaken,—and no one doubted that our desire was to see the treaty of peace formulated along the actual lines of those principles,—and desired nothing else. We were welcomed as disinterested friends. We were resorted to as arbiters in many a difficult matter. It was recognized that our material aid would be indispensable in the days to come, when industry and credit would have to be brought back to their normal operation again and communities beaten to the ground assisted to their feet once more, and it was taken for granted, I am proud to say, that we would play the helpful friend in these things as in all others without prejudice or favor. We were generously accepted as the unaffected champions of what was right. It was a very responsible rôle to play; but I am happy to report that the fine group of Americans who helped with their expert advice in each part of the varied settlements sought in every transaction to justify the high confidence reposed in them.

And that confidence, it seems to me, is the measure of our opportunity and of our duty in the days to come, in which the new hope of the peoples of the world is to be fulfilled or disappointed. The fact that America is the friend of the nations, whether they be rivals or associates, is no new fact; it is only the discovery of it by the rest of the world that is new.

America may be said to have just reached her majority as a world power. It was almost exactly twenty-one years ago that the results of the war with Spain put us unexpectedly in possession of rich islands on the other side of the world and brought us into association with other govern-

ments in the control of the West Indies. It was regarded as a sinister and ominous thing by the statesmen of more than one European chancellery that we should have extended our power beyond the confines of our continental dominions. They were accustomed to think of new neighbors as a new menace, of rivals as watchful enemies. There were persons amongst us at home who looked with deep disapproval and avowed anxiety on such extensions of our national authority over distant islands and over peoples whom they feared we might exploit, not serve and assist. But we have not exploited them. We have been their friends and have sought to serve them. And our dominion has been a menace to no other nation. We redeemed our honor to the utmost in our dealings with Cuba. She is weak but absolutely free; and it is her trust in us that makes her free. Weak peoples everywhere stand ready to give us any authority among them that will assure them a like friendly oversight and direction. They know that there is no ground for fear in receiving us as their mentors and guides. Our isolation was ended twenty years ago; and now fear of us is ended also, our counsel and association sought after and desired. There can be no question of our ceasing to be a world power. The only question is whether we can refuse the moral leadership that is offered us, whether we shall accept or reject the confidence of the world.

The war and the Conference of Peace now sit-

ting in Paris seem to me to have answered that question. Our participation in the war established our position among the nations and nothing but our own mistaken action can alter it. It was not an accident or a matter of sudden choice that we are no longer isolated and devoted to a policy which has only our own interest and advantage for its object. It was our duty to go in, if we were indeed the champions of liberty and of right. We answered to the call of duty in a way so spirited, so utterly without thought of what we spent of blood or treasure, so effective, so worthy of the admiration of true men everywhere, so wrought out of the stuff of all that was heroic, that the whole world saw at last, in the flesh, in noble action, a great ideal asserted and vindicated, by a Nation they had deemed material and now found to be compact of the spiritual forces that must free men of every nation from every unworthy bondage. It is thus that a new rôle and a new responsibility have come to this great Nation that we honor and which we would all wish to lift to yet higher levels of service and achievement.

The stage is set, the destiny disclosed. It has come about by no plan of our conceiving, but by the hand of God who led us into this way. We cannot turn back. We can only go forward with lifted eyes and freshened spirit, to follow the vision. It was of this that we dreamed at our birth. America shall in truth show the way. The light streams upon the path ahead, and nowhere else.

## HENRY CABOT LODGE

HENRY CABOT LODGE led the fight against the League in the United States Senate where he had become chairman of the Foreign Relations Committee by virtue of the Republican victory in the 1918 elections. Lodge's own *The Senate and the League of Nations* (New York, 1925) reveals something of the spirit in which that struggle was carried on. Lodge was a partisan, an isolationist, a bitter and perhaps even envious foe; it is difficult to disentangle motives in such a complex situation. At the same time, it must not be forgotten that there were those among Wilson's opponents who honestly feared European entanglements, who knew the Treaty was a bad one, and who were dismayed at Wilson's stubbornness. All these combined to demand an immediate and formal end to the

war; the League could be discussed later and without heat. Had they reversed the process, it may be said parenthetically, they might have been closer to the realities.

Wilson made a number of appeals to the Senate. In August, he met with its Committee on Foreign Relations and again sought to prove that the United States had nothing to fear from the League. We were free to withdraw when we chose; the Monroe Doctrine was recognized in the Covenant—thus becoming part of the body of received international law for the first time; and our obligations were moral rather than legal in their essence. Though the Committee was not convinced by the President's arguments, less than a dozen Senators opposed the League in any form. Most of the

Senate agreed with Republicans like Taft, Root, Hughes and Hoover: the Treaty and the League should be accepted with certain modifications. As chairman of the Senate's Foreign Relations Committee, Lodge reported the Treaty out with a series of reservations. These released the United States from obligation to implement Article X of the Covenant, to accept a mandate, to serve on a League committee, or to engage in economic sanctions without the consent of Congress. As a further safeguard of sovereignty, the United States was to be sole judge of the fulfillment of its obligations.

The Senate proceeded to adopt a preamble to the Treaty which declared that it was not to be binding until three of the four associated powers should accept the United States reservations. At this point, Wilson interposed: if the Powers were to comply with the Senate's conditions, the entire conference must reassemble and the Treaty be re-submitted to Germany. Since Wilson considered that the reservations vitiated the Treaty, he urged that the

Democrats vote against them. Ratification with reservations was thus defeated; unconditional ratification failed even more signally.

Since the Senate showed itself recalcitrant—whether in response to Wilson's obstinacy or in answer to deliberate maneuvering to secure the Treaty's defeat; a choice the reader must make for himself on the basis of Lodge's book—Wilson's last hope was to appeal to the people against the Senate. He made a tour of the Middle and Far West; he was followed by Republican orators; spokesmen for European minority groups who felt they had been wronged by the Treaty also joined their voices to the debate—and the confusion. The question of world peace itself was hopelessly lost in the wrangling. Then Wilson fell ill, Congress completely escaped his control, and the battle was lost. The United States never ratified the Treaty, and in 1921 by resolution simply declared the war was over.

The selections here reprinted are from Lodge's book and are published by permission of Charles Scribner's Sons.

### *The Senate and the League of Nations*

BY HENRY CABOT LODGE

#### CHAPTER VII: THE COMING OF PEACE

... ON THE MORNING of Sunday, March 2nd, Senator Brandegee came to my house soon after breakfast and told me that it seemed to him of the last importance that at that juncture some declaration should be made, securing for it if possible the signatures of more than one-third of the Senate, to the effect that a League of Nations such as it was understood was to be proposed, and the outlines of which had been given through the press, could not be passed. I was very much struck by the proposition, and he had no difficulty in convincing me of its essential and even vital importance. We discussed it for some time and then went to see Senator Knox and asked him to draft the declaration, which he did, and we went over his draft with him later in the day. I then took the draft on Monday morning and went first to see Senator Cummins, who was one of the oldest and most distinguished Senators on our side, and asked him to consider it and told him that I hoped he

would be ready to sign it. He went over it with care, suggested two amendments, as I remember, to which no one could object and which I regarded as improvements, and then those of us who had been interested in getting it up signed it and proceeded to circulate it on our side of the chamber. We did not think it desirable to ask any Democrats to sign. We knew there were Democratic Senators opposed to the League, but we did not wish to involve or embarrass them, and we also were able to exercise a greater freedom in taking this position than was possible for them. Just before midnight on the 3rd of March I arose in the Senate and read the declaration and the signatures, which made certain the printing of the declaration in the Record. Its consideration was clearly out of order in the condition of the existing business; one objection was certain to put it over and that objection was made by Senator Swanson of Virginia. Our purpose, however, had been served. The declaration went out to the world and before the next morning we had by the

arrival of Senator Elkins of West Virginia and a telegram from Senator Fall of New Mexico two additional signatures, making in all thirty-nine signers. One-third of the Senate was of course 32, so that it was perfectly clear that a proposal for a League of Nations which did not have reservations meeting the objections expressed in the declaration could not pass the Senate; that is the Senate would not advise and consent to it. The declaration with the signatures read as follows:

"Whereas under the Constitution it is a function of the Senate to advise and consent to, or dissent from, the ratification of any treaty of the United States, and no such treaty can become operative without the consent of the Senate expressed by the affirmative vote of two-thirds of the Senators present; and

"Whereas owing to the victory of the arms of the United States and of the nations with whom it is associated, a peace conference was convened and is now in session at Paris for the purpose of settling the terms of peace; and

"Whereas a committee of the conference has proposed a constitution for a league of nations and the proposal is now before the peace conference for its consideration: Now, therefore, be it

*"Resolved by the Senate of the United States in the discharge of its constitutional duty of advice in regard to treaties,* That it is the sense of the Senate that while it is their sincere desire that the nations of the world should unite to promote peace and general disarmament, the constitution of the league of nations in the form now proposed to the peace conference should not be accepted by the United States; and be it

*"Resolved further,* That it is the sense of the Senate that the negotiations on the part of the United States should immediately be directed to the utmost expedition of the urgent business of negotiating peace terms with Germany satisfactory to the United States and the nations with whom the United States is associated in the war against the German Government, and that the proposal for a league of nations to insure the permanent peace of the world should be then taken up for careful and serious consideration.

"The undersigned Senators of the United States, Members and Members elect. of the Sixty-sixth Congress, hereby declare that, if they had had the opportunity, they would have voted for the foregoing resolution:

Henry Cabot Lodge.  
Philander C. Knox.  
Lawrence Y. Sherman.  
Harry S. New.

William M. Calder.  
Henry W. Keyes.  
Boies Penrose.  
Carroll S. Page.

George H. Moses.  
J. W. Wadsworth, Jr.  
Bert M. Fernald.  
Albert B. Cummins.  
F. E. Warren.  
James E. Watson.  
Thomas Sterling.  
J. S. Frelinghuysen.  
W. G. Harding.  
Frederick Hale.  
William E. Borah.  
\* Walter E. Edge.  
Reed Smoot.  
Asle J. Gronna.

George P. McLean.  
Joseph Irwin France.  
Medill McCormick.  
Charles Curtis.  
\* Lawrence C. Phipps.  
Seldon P. Spencer.  
Hiram Johnson.  
Charles E. Townsend.  
William P. Dillingham.  
I. L. Lenroot.  
Miles Poindexter.  
Howard Sutherland.  
\* Truman H. Newberry.  
\* L. Heisler Ball.

Added the next morning.  
Davis Elkins of West Virginia  
Albert B. Fall of New Mexico."

I call attention to this declaration and the manner in which it was made and then published not only to the people of the United States but to the people of Europe, because it has an especial significance which must not be overlooked. The United States and the Senate were much criticized in Europe, and the President and the Allied Powers kept urging directly or by implication to the proposition that we were bound to accept the Versailles Treaty because President Wilson had negotiated and signed it. On the part of the President, this was an attempt to overthrow the powers of the Senate and thus indirectly to violate and set aside the provisions of the Constitution. On the part of the Allied Powers, it was the business of their official representatives to know what our constitutional provisions were and that no treaty would bind the United States unless accepted and approved by the Senate, whether with or without amendments or reservations. The public men of England and France, especially those of England, knew this fact; in any event, it was their business to know it, whether they actually knew it or not. . . .

## CHAPTER X: THE LEAGUE IN THE SENATE

. . . I will frankly confess that in the time which has elapsed since the Senate's discussion of the League I have become more and more satisfied, although I voted in the opposite way, that the final decision of the Senate was correct. Every day of the League's existence has convinced me of the wisdom of the United States in holding itself aloof from its useless and at the same time dangerous provisions. In practice the League has thus far proved futile for the purpose for which it was ostensibly designed and loudly proclaimed. It has

\* Senators Elect.

done nothing to stop wars. . . . In the nature of things and in its own being the League cannot do anything to stop wars. As a meeting of the representatives of the governments, not of the people, of the different nations, it has engaged in a great deal of debate and conversation; but it has effected nothing of vital consequence to the cause of world peace. Those matters in which it has taken action were in some instances innocent and meritorious and in others trifling or futile. Really to fulfill the advertised intention of its framers, it would have been necessary to put force behind the League, and if there had been an international army and an international commander to carry out the behests of the assembly and the council of the League, the covenant would have become a breeder of wars and not a promoter of peace. As it is, it can at least be said of the League that it is harmless and that occasional international conferences or conversations may be beneficial. The value of the great and, I think I may say, historic debate in the Senate was that every day the American people learned more clearly what the covenant of the League of Nations which Mr. Wilson presented to them really meant, what dangers it threatened and what perilous purposes it might conceal. It was a very remarkable debate. It rendered an immense service in the instruction of the people. It vindicated the wisdom of the provisions of the American Constitution in regard to the treaty-making power and also the capacity of the Senate as a body to rise to the heights of a very great occasion. The failure of the Senate to give its advice and consent to the ratification of the Treaty of Versailles on the second vote, in March, 1920, however, came much nearer defeat than is generally realized. Those who voted for the acceptance of the Treaty voted in good faith; so did those of the Democrats who voted against it, and all the Republicans. Without a thought of self they were guided by a deep sense of duty to this country. As the final vote drew near, however, I felt convinced that it was quite possible that the treaty with the reservations would be adopted by the Senate because it was obvious to me that on this final and crucial test a majority of the Democrats would be unwilling to vote against ratification. But I also felt convinced that President Wilson would prevent the acceptance of the treaty with reservations if he possibly could. I based this opinion on the knowledge which I had acquired as to Mr. Wilson's temperament, intentions and purposes. I had learned from a careful study of the President's acts and utterances during those trying days—and it was as important for me to understand him as it was for his closest friends—that

the key to all he did was that he thought of everything in terms of Wilson. In other words, Mr. Wilson in dealing with every great question thought first of himself. He may have thought of the country next, but there was a long interval, and in the competition the Democratic Party, I will do him the justice to say, was a poor third. Mr. Wilson was devoured by the desire for power. If he had been a soldier and a man of fighting temperament, the Government of the United States would have been in grave danger. He was obstinate and up to a certain point determined, but he was not a fighting man and he never could have led an army or controlled those who would have led it for him, as was done by a very inferior type of man, the 3rd Napoleon. When it came to actual conflict he lacked nerve and daring, although with his temperament I doubt if he lacked the will. He had as great an opportunity as was ever given in human history to one man. He could have settled the affairs of the world from the White House and taken a position both at the time and in the opinion of posterity which it would have been hard to rival. He would have had the world at his feet, but he could think only of himself, and his own idea was and had been for a long time that the part for him to play was that of the great peacemaker. First there was to be no war; we were "too proud to fight." Then when the war came, it was to be "a little war"; then it was to be "a peace without victory." When the great forces let loose by the war got beyond his control and the final settlement came, his one thought appeared to be, as disclosed by his words and acts, to create a system of which he would be the head, and to that everything was made subservient. The people with whom he was associated during his visits to Europe soon discovered this, and by yielding to his demand for the establishment of a League of Nations at just that time, and then by judiciously threatening its defeat, they compelled him to do everything they desired, and many of the evil things that were done and to which Mr. Wilson unwillingly assented, notably the surrender of Shantung to Japan, it is only fair to say were forced upon him because he was ready to sacrifice everything to his own purposes, to the League upon which he had pinned his hopes; in other words, to himself.

The most striking illustration of his absorption in himself to the exclusion of everything else was shown at the time of the last vote in the Senate on the Versailles Treaty. After the vote had been taken and the Treaty defeated, Senator Brandegee, an "irreconcilable," turned to me and said, "We can always depend on Mr. Wilson. He never

has failed us. He has used all his powers to defeat the Treaty, because we would not ratify it in just the form which he desired." I replied, "That is quite true. Without his efforts the Treaty would have been accepted by the Senate today." This is shown by the figures. Of the 47 Democratic Senators, we had 23 for the Treaty. Twenty-four Democrats voted against it and, combined with the 15 irreconcilables on the Republican side they were more than enough to deprive the Treaty of the two-thirds vote necessary for ratification. If Mr. Wilson had said a favorable word to his personal supporters, the Treaty with the reservations would have been accepted by the Senate. As it was, he was obliged to exert all his power to prevent its acceptance with the reservations, and two of his Cabinet officers were on the floor of the Senate on that last day using every possible effort to keep enough Democrats in line to assure the defeat of the Treaty.

As I have already said, I do not regret the result now. I think it was a fortunate result. But the Treaty would have been accepted by the Senate on the 19th of March, 1920, if it had not been for Mr. Wilson, and the defeat of the Treaty with the reservations was owing entirely to his determination to have his own way, and to dominate the situation. I do not wish to be unjust to Mr. Wilson in any way, and, therefore, it is only fair for me to say that the final defeat of the Treaty of Versailles and the League of Nations was owing to his efforts and to his unyielding attitude. . . . Rather than yield in any degree or upon any essential point in the treaty which he submitted, he was ready to join with those who were opposed to the covenant of the League of Nations on any terms and defeat the whole Treaty of Versailles. He had already in his speech at Salt Lake City declared this position upon Article 10, the article of which he was the author. He would not consult, he would not advise, he would not consider any change of meaning or consequence. He was determined to have the Treaty in every essential point exactly as he had approved it in Paris, and nothing else. In other words he was so set upon having his own way that he was ready to destroy the Treaty of Versailles, which was framed to replace a victorious war with a victorious peace, rather than permit any modification in the terms of the League of Nations which he had identified with himself. I do not emphasize this point for the purpose of placing upon Mr. Wilson the responsibility for the defeat in the Senate of the Versailles Treaty. This is a wholly secondary point and there were plenty of men holding positions of power and with profound convictions, into

which no thought of self entered, who believed that the acceptance of the League of Nations would be a betrayal of this country and who were quite ready to share with him, although for totally different motives, the responsibility of defeating the Treaty. I have dwelt upon the President's attitude toward the Treaty while pending in the Senate not to criticise or censure him but because his attitude and his action in this great crisis throw a flood of light upon Mr. Wilson himself, exhibit his temperament and demonstrate the soundness of my estimate of him at the time and the truth of the proposition that the key to his action always was to be found in the fact that he thought of everything and of every question in terms of his own personal interest. The thought of self always overshadowed in the ultimate decision and effaced every other consideration. It was shown in his well known dislike to consult with any one who disagreed with him. It was displayed in the cold way in which he dropped into the well of forgetfulness some of those nearest to him, who, whether rightly or wrongly, had served and followed him with the utmost loyalty. . . .

That he was a man of ability cannot be questioned. He always spoke well, although he was criticised for having an academic manner, which was not to me a disparagement. His style in writing and speaking was clear and forcible. His English was excellent, although he had a fondness for phrasemaking, which, as often happens, proved on several occasions a dangerous gift. He had thought and written much in regard to systems of government, particularly our own, and he was a writer upon and a student of American history. He was entirely capable of thinking for himself and quite independently, as his writings show, containing as they do many statements which attained to a wide subsequent interest when they came into conflict with opinions and views which the events of the time caused him to express after he was President. He was not a scholar in the true sense at all, although the newspapers were fond of applying that term to him, as they are apt to apply it to anyone who has held a position of educational importance. To give one little illustration of what I mean. Universal negatives are always perilous, but I can only say that I have never noticed but once in any of Mr. Wilson's writings or speeches a classical allusion. . . .

It is not possible, however, to discuss Mr. Wilson, even in the most general way, or to make any attempt to give an impression of his temperament and character without some allusion to what was constantly being said by his unlimited admirers about his idealism—that he was a self-sacrificing

idealist; I think the word "martyr" was not infrequently used. He and a certain group of supporters were especially fond of talking about "vision," and I took occasion to say in my speech of August 12, 1919, that "vision" and "men of vision" are one thing but that "visionaries" are something entirely different. The same may be said in regard to idealism.

Mr. Wilson was a master of the rhetorical use of idealism. He spoke the language very well and he convinced many people who were content with words that he was a man of vision and one ready to sacrifice all to his ideals. He had a selection of phrases which he used very skilfully. I might say, for instance, that "breaking the heart of the world" was one and "making the world safe for democracy" was another, while "vision," "uplift" and "forward-looking" were seldom absent. These are fair examples of his successful use of this form of popular appeal. But no one who ever studied Mr. Wilson's acts, whether as an opponent or as a supporter, if at all clear-sighted, could fail to perceive that in dealing with political or international questions, whether great or small, Mr.

Wilson was extremely practical and always had in view some material and definite purposes which would result, if successful, possibly in benefit to the world, certainly in benefit to himself. . . .

There are those still extant who speak of Mr. Wilson as a "very great man." An able man in certain ways, an ambitious man in all ways he certainly was; by no means a commonplace man. But "very great men" are extremely rare. Mr. Wilson was not one of them. He was given the greatest opportunity ever given to any public man in modern times which we may date from the Revival of Learning in Europe. Having this opportunity he tried to use it and failed. The failure necessarily equalled the opportunity in magnitude and the failure was complete and was all his own. No one could have destroyed such a vast opportunity except the man to whom it was given, and in this work of destruction unaided and alone Mr. Wilson was entirely successful. Difficult as such an achievement in the face of such an opportunity was, it does not warrant describing the man who wrought the destruction in any sense as a "very great man."

Part Ten

THE GOLDEN NINETEEN  
TWENTIES





# INTRODUCTION

## 1. WORK AND WEALTH

*Population Growth and Changes.* In the thirty years from 1870 to 1900, the population of the United States had doubled in size; but in the thirty years from 1900 to 1930, its increase was but little more than 60 per cent. In 1930, the population of the United States was 122,800,000. The slowing down of the country's growth was due to the following factors: the restriction of immigration; the movement from the country to the cities; and the wider exercise of birth control, particularly as more and more of the residents of the cities became members of the middle class. Too, America's inhabitants were concentrating in specific areas. New York and California were growing greatly; as were also Michigan, Texas, Illinois, and Florida. On the other hand, the primacy of New England was now a thing of the past; indeed, the three Pacific coast states held a larger population than all the six New England commonwealths.

The trend towards urbanization was continuing. In 1900, 33 percent of the population was living in communities having 8,000 or more inhabitants; in 1930, this ratio had increased to 49 percent. Americans were thronging into cities because of superior job opportunities and because of the more modern conveniences and facilities of apartment houses, the greater variety of diversions, the theaters, educational institutions, and other cultural centers. Nothing was more typical of American civilization in the postwar era than metropolitan New York, where within a radius of fifty miles of Manhattan Island were closely located together 290 cities, boroughs, and villages, with a combined population of more than ten millions. The country, on the other hand, offered its attractions, and with the automobile more and more members

of the middle class were seeking at least part-time residence in suburban and rural communities. During the twenties there was some talk of decentralization, on the part of city planners and industrialists; nevertheless, little real progress was made, and the cities grew, as they attracted youth seeking new opportunities and workers a more mobile labor market.

Significant occupational changes were also taking place in the United States. The country had been built up by its farming families and, as late as 1870, one half of all those gainfully employed were still engaged in agriculture. By 1930, however, this ratio had fallen to one fifth. And—on the other side of the coin—almost four fifths of the persons gainfully employed in the United States were working for wages and salaries, as compared with about one half of those gainfully employed in 1870. At first glance this might have seemed to indicate the proletarianizing of the American labor force. But this was not true, for these reasons: (1) Within the salary and wage population was a growing group of salary earners (the so-called white-collar class) whose attitudes and values continued to be those of middle-class Americans. (2) Even within the so-called laboring population there existed a very sizable group whose identification with the middle class was also very real. Such workers frequently owned their own homes, possessed life insurance, and tried to send at least one of their children to college. The United States, despite its industrialization and an expanding corporate institutionalism, was still middle class at heart. Nowhere else in the world did a country's culture and economy rest upon such a broad base. As long as the American

middle class continued so large, and as long as many workers continued to identify themselves with it, the prospects of violent change in the United States were remote.

*Industry's Growth.* More and more the machine was becoming the hallmark of our culture. It is true that the machine broke down privacy, swept away old skills, created technological unemployment, wasted natural resources, and standardized taste. Yet the machine was a beneficent master: for it released American men, women, and children from the backbreaking toil of centuries and produced a vast quantity of consumer goods whose prices were being steadily lowered. Thanks to the machine and its increase in productivity, it was possible to raise the school-attending age of America's youth, so that the boys and girls of the nation were graduating from high school, and the proportion attending college was steadily increasing. The machine, too, made for color and variety in America's daily living: it put amusements within the reach of all and produced cheap fabrics and clothing that made possible an improved taste everywhere.

When Americans and Europeans came to view some of the outstanding characteristics of this Machine Age, they were able to agree that the following were of particular note: (1) The unrivaled natural resources of the country. (2) The relative scarcity of labor and the high standard of living. (3) The great increase in labor productivity, and the use of machinery in agriculture, transportation, and manufacture, as well as the remarkable utilization of hydroelectric power. (4) The vast domestic market. (5) Scientific management in industry and commerce. (6) Industrial peace, because of the more conservative and nonpolitical outlook of organized labor. (7) The dominant national trait of optimistic energy. Said *Recent Economic Changes*, in 1929, on this last: "The individual in America is mobile as to place and calling; he is moving upward. . . . The way to education and to promotion is wide open; indeed many ladders

to advancement are available and their rungs are all intact, so he may climb who will."

America's capacity to produce was indeed impressive. It possessed 14 percent of the total world area, excluding the polar regions, and about 7.5 percent of the world's arable land. It produced 40 percent of the whole world's steel, 35 percent of the world's coal, 40 percent of the world's cotton, 60 percent of the world's petroleum and refined oil. The horsepower capacity of its electrical central stations and industrial power plants exceeded the combined electrical generating capacities of Germany, France, Great Britain, Canada, and the Soviet Union. The United States possessed 45 percent of the whole world's wealth.

Increases in productivity were startling: At the end of the 1920s, each American worker, on the average, was turning out half again as much goods as he had been able to create at the beginning of the decade. From 1900 on, the national output of goods and services had more than doubled, while the country's population had increased only 50 percent in the thirty years. Nothing indicated America's advance so significantly as these figures: in 1900 the country's national income was 19 billions of dollars; in 1915, 36 billions of dollars; in 1921, 58 billions of dollars, and in 1929, 83 billions of dollars. For the same years, the real income per worker had been \$1,543, \$1,650, \$1,637, and \$1,776.

In the golden 1920s America's great industries were textiles, machinery, steel and its products, automobiles, foodstuffs, paper and printing, chemicals, transportation and equipment, lumber and lumber products, stone, glass and clay, and nonferrous metals. Thus the United States had continued to develop evenly, producing both capital goods and consumer goods. But the twenties also had seen pioneering in new fields to employ new capital investments and to create job opportunities for fresh skills and for many of those workers who were being displaced by advancing mechanization in older industries. During the decade, radio, aviation, sound

movies, and the chemical industries had suddenly appeared and quickly grown to maturity.

*The Automobile.* Most important was the fact that the 1920s was the age of the automobile. It entered into mass production; its prices were lowered; and it made possible the appearance of a vast company of new activities and services. The Federal and state governments spent great sums on the improvement and hard-surfacing of highways; and Americans erected garages and repair shops and roadstands and tourist camps. America took to the road—seeking jobs, sunshine, and recreation.

In 1910, there were only 458,000 cars registered in the country; by 1929 there were 23,000,000. The name of Henry Ford became the symbol of American mechanical progress. Entering the automobile industry in the early nineties, and utilizing mass-production methods, in 1910 he turned out his first famous Model T. In 1928, when Model T was discontinued for a more luxurious car, 15,000,000 of these unattractive but amazingly efficient little vehicles had been manufactured and sold. The change-over from Model T to Model A pointed up another characteristic of the times. The change cost the Ford Company 100 millions of dollars; and the willingness to spend such large sums for conversion—always leading to greater productivity—demonstrated the bold leadership of large numbers of America's enterprisers.

*Technological Unemployment.* It is true that greater productivity per unit of labor meant the utilization of new machine techniques and the creation of new investment opportunities for savings. On the other hand, greater productivity made for labor displacement—and technological unemployment. Thus, over the 1920s, in manufacturing, there was an increase in productivity of 30 percent and a net loss of 546,000 workers; in railroad transportation, the increase in productivity was 20 percent and the net loss of workers was 253,000; in mining, there was an increase

of productivity of 20 percent and a net loss of 100,000 workers. But what technological unemployment meant was really this: it required the retraining of workers and their shifting into other areas where expansion was occurring. If there were fewer jobs in railroading, there were more in trucking; if there were fewer opportunities in manufacturing, there were more in the service industries. The fact is, from 1922 to 1929, on an average, the total unemployed each year in the country was only between two and two and one-half million workers; and many of these were out of work because of choice or because of the fact that they were associated with seasonal trades.

*The Position of Labor.* Increases in national wealth, income, and real wages—along with the absence of serious unemployment during the greater part of the decade—helped to account for the growing conservatism of American labor. Organized labor continued largely to function among the skilled crafts, and saw no necessity for deviating from its traditional policies of voluntarism and pure-and-simple trade unionism. Many unions, like many corporations, were not averse to freezing the hard-won gains achieved through such tactics. These unions resisted the introduction of labor-saving machinery, insisted upon the maintenance of so-called featherbed jobs to make possible the sharing of the work among the whole union membership, limited entrance by requiring long apprenticeships and high initiation fees, and demanded the closed shop under which the union recruited the workers for the employer.

This was an uninspired leadership. Organized labor, too, had no programs to offer the workers in the country's new mass-production industries—automobiles, rubber, petroleum and its products. On the other hand, management was more aggressive—and more successful. It adopted welfare programs; installed profit-sharing devices; and encouraged workers to buy stock. It also fought the unions bitterly—with labor spies, terrorism, and

court injunctions. All these helped to account for the decline in trade-union membership and militancy. In 1920, there had been 5,111,000 trade unionists; in 1929, there were only 4,330,000, with more than 40,000,000 persons in the laboring force of the country. In 1920, there had been 3,411 strikes involving 1,463,000 workers; in 1927, there were 921 strikes involving 288,500 workers.

*Real Wages.* As plants expanded and wealth accumulated, the real wages of America's workers improved. As has been pointed out earlier, the period 1900-14 was one of no advances; and that of 1914-18 showed setbacks. But the forward march was resumed at the end of World War I. From 1918 to 1930, the increase in real wages was 100 percent! Most of these gains, however, had been achieved during 1918-22. From 1922 to 1930, during the country's great prosperity, the rise in real wages was only 20 percent.

At this point we may anticipate our story a little. Productivity was increasing faster than real wages; prices were not dropping as sharply as they might have because of "price management" in many industries; and a real profit inflation was occurring. In other words, capital was getting too much—and some savings therefore were entering speculative channels; while labor was not getting enough. This was one of the distortions in the economy of the 1920s that accounted for boom—and depression.

This fact can be demonstrated in another way—by an analysis of the distribution of family income. The Brookings Institution, in its well-known study, *America's Capacity to Consume*, showed that in 1929 the following great disparities existed: Families receiving \$5,000 a year or better constituted but 8.2 percent of the country's family population, while they got 42 percent of the country's income. On the other hand, families receiving \$2,000 a year or less made up 59.5 percent of the country's family population, and they got only 23.7 percent of the country's income.

*The Role of the Corporation.* The units of

enterprise naturally grew larger as the dependence upon capital for investment in plant became more and more an outstanding attribute of the Machine Age. The corporation was as typical of the times as was the assembly line. In 1929, corporations accounted for 86 percent of the business done in transportation and other public utility fields, 92 percent in manufacturing, and 96 percent in mining. So significant had great corporations become, that one tenth of 1 percent of the corporations of the country owned more than half of the nation's corporate assets.

The tendency toward the creation of great consolidations—which had largely ceased in the United States by 1904—was resumed with new vigor in the twenties. In part this movement reappeared because of the opening up of new fields of enterprise to welcome capital investment: the automobile, electrical goods, the telephone, electric light and power, the radio, synthetics. There were other reasons as well. New consolidations were effected to permit of the exploitation of the national market; to bring about important economies through the use of common sales agencies or management; to achieve integration. Government was also less vigorous in its enforcement of the antitrust laws. There was, too, the pressure of accumulated savings which encouraged promoters—some of them unscrupulous rascals—to float new companies. Holding companies, particularly in the field of electric light and power, sprang up like weeds, heavily overcapitalized the properties on which they were based, and obtained large sums from the unwary by bond rather than equity issues.

Holding companies and mergers resulted in a greater concentration and control of America's industrial enterprise than ever before in its history. At the end of 1929, 3 companies in the telephone and telegraph fields had securities outstanding with a market value of 4.4 billions of dollars; 11 companies in the electrical equipment field had securities outstanding valued at 2.3 billions; 23 companies

in the automobile field had securities valued at 2.6 billions; 25 companies in iron and steel had securities outstanding valued at 2.1 billions.

Against these trends government never raised its voice. Its hands-off policy—nay, its

benevolent approval—encouraged Americans to greater recklessness in company flotations and securities speculations. The Republican administrations of the 1920s sought to forget the lessons that the New Freedom had tried to bring to America.

## 2. POLITICS IN THE TWENTIES

*Election of 1920.* When the Republicans assembled in convention at Chicago in June, 1920, it was apparent to the whole nation that this was to be a Republican year. As a consequence, there was bitter rivalry among the contenders for the nomination; but on the ninth ballot Senator Warren Gamaliel Harding of Ohio pulled ahead of the other aspirants and on the next ballot he was nominated. As his running mate, the Republicans chose Governor Calvin Coolidge of Massachusetts. Harding had been a routine Republican politician and he had served in the Senate without any distinction. Coolidge had climbed up the slow ladder of political preferment until, in 1919, he had been elected governor of the commonwealth of Massachusetts. He had suddenly become a familiar name through the length and breadth of the land, when in September, 1919, he intervened in the Boston police strike. It is true that by the morning of September 11, order had been restored; but, in the afternoon, Coolidge had appeared on the scene, assumed control, and poured into Boston militia units from all over the state. His telegram to President Gompers of the A.F. of L. that "There is no right to strike against the public safety by anybody, anywhere, at any time" had been widely applauded. He was reelected governor and was an obvious choice by the Republicans to balance their ticket.

The Democrats met at San Francisco later in June, and nominated Governor James M. Cox of Ohio and the youthful Franklin D. Roosevelt of New York as their standard bearers. The canvass of 1920 was a spiritless

affair. The Democrats sought to rekindle old fires by proclaiming the election a "solemn referendum" on the question of American entrance into the League of Nations; but the Republicans refused to participate seriously in the debate. Harding was elected by an overwhelming majority, receiving 404 votes in the electoral college to Cox's 127. The Republican victory in the Congressional elections was equally impressive. There can be no question that the American voters seemed to welcome the return to "normalcy" which the President-elect had promised.

*The Harding Administration.* President Harding surrounded himself by a Cabinet that puzzled the country. The State Department went to Charles E. Hughes; the Treasury Department to Andrew W. Mellon, a wealthy banker of Pittsburgh; the Commerce Department to Herbert Hoover, who had been in charge of American relief work in Europe at the end of the war. But the rest of the offices were filled by undistinguished men some of whom were also venal. Before very long, it became apparent that the Cabinet and the executive offices were to be dominated by Harry M. Daugherty of Ohio, who was placed in charge of the Department of Justice. Daugherty spoke for the so-called Ohio gang, who were hard-drinking, card-playing spoils-men and thieves.

From the beginning, the same kind of scandals that had plagued the earlier Grant administrations were to be Harding's lot. Corrupt practices immediately appeared in the Veterans' Bureau, the Department of Justice, and the Office of Alien Property Custodian.

Even more serious was the reckless squandering of the nation's oil reserves, which were turned over to private individuals by Secretary of Interior Albert B. Fall. Fall leased the famous Teapot Dome Reserve of Wyoming to his friend Harry F. Sinclair; and the equally important Elk Hills Reserve of California to another friend, E. M. Doheny. The secrecy attending the leases and the sudden wealth of Fall, who was known to have been in financial straits, led to a Senate committee investigation under the able direction of Senator Thomas J. Walsh of Montana. The result was the establishment of the guilt of many of those involved. The Secretary of the Navy and the Secretary of the Interior were compelled to resign their Cabinet offices; government civil suits to recapture the oil reserves were finally successful in 1927; and Fall was found guilty of accepting a bribe and was sentenced to jail.

Harding, undoubtedly, was not party to these crimes. But the appointments to places of public trust had been his; and morally it was just that he should assume a large part of the responsibility. Harding sank under the weight of these scandals, and died on August 2, 1923; Calvin Coolidge was now President of the United States.

*Coolidge in Office.* Coolidge's administration was undistinguished; but the country was not demanding bold leadership and creative statesmanship. Coolidge was willing to turn policy-making over to Hughes, Mellon, and Hoover in their respective domains. He gave the bull market his blessing. And he spent his time on unimportant concerns. But because the years of his administrations marked a golden age in American annals, his fellow citizens were prepared to regard the quiet little man in the White House with affection.

It was inevitable that Coolidge should be renominated by the Republicans; and when they held their convention at Cleveland in June, 1924, he was named on the first ballot. For the vice presidency, General Charles G. Dawes was selected. The Democrats met later in the same month at New York and sat al-

most continuously until July 10. The leading contenders for the Democratic nomination were McAdoo of California and Governor Alfred E. Smith of New York. Smith was not named because of the great power of the Ku Klux Klan in the councils of the party. The Democrats therefore turned to a compromise candidate and, after balloting more than one hundred times, finally nominated John W. Davis of New York for the presidency; with him was picked Governor Charles W. Bryan of Nebraska, the Commoner's brother. An important third-party movement once more made its appearance as a result of the growing dissatisfaction of insurgent Republicans with the conservatism of the Harding-Coolidge administrations. This Farmer-Labor party nominated Senator La Follette for the presidency and Senator Burton K. Wheeler of Montana (who was a Democrat) for the vice presidency. The Farmer-Labor ticket received the endorsement of the Socialist party, the executive council of the American Federation of Labor, and the railroad brotherhoods. Actually, however, La Follette's platform was directed largely at monopoly—that same monopoly which had been troubling the American West for the last half century. In other words, it was an agrarian program rather than a socialist one.

In the elections, Coolidge's majority over his two rivals was an impressive one; and he was easily elected. In the electoral college he received 382 votes to Davis's 136 and La Follette's 13. In the Congressional elections, the Republican triumph was so great that the insurgent Republicans were shorn of their power.

President Coolidge's good fortune did not desert him during the full term of his second administration. The country's phenomenal prosperity continued; industrial conflicts were few and unimportant; and peace and plenty reigned over the land. The result was that Coolidge was able to dictate the presidential ticket of his party in the election of 1928.

*Election of 1928.* The Republicans assembled at Kansas City in June and named Herbert Hoover for the presidency and Senator Charles Curtis of Kansas for the vice-presidency, both on the first ballots. The Democrats met at Houston, Texas, also in June, and now could not deny Smith. (The Klan by this time had become discredited.) Smith was nominated on the first ballot and Senator Joseph T. Robinson of Arkansas was selected to make the contest with him. Governor Smith made a gallant fight, but his cause was doomed to failure. (1) He had no economic program of dissent: he had nothing to offer labor and agriculture. (2) He was a "wet" as far as Prohibition was concerned, a position exceedingly distasteful to the old Bryan country of the South and the West. (3) He was a loyal member of New York City's powerful and frequently corrupt Tammany Hall. (4) He was a Roman Catholic. (5) And, of course, the golden era of prosperity stood in the way of a Republican upset, no matter how great the personal charm of the Democratic nominee.

The upshot was that the Democracy suffered its most humiliating defeat since the Civil War. Smith lost his own State of New York as well as the Southern states of Virginia, North Carolina, Tennessee, Florida, and Texas. He did not carry a single Border state. The Far West, which had voted for Bryan and Wilson, deserted him. His total

electoral vote was 87 to Hoover's 444. The next Congress was also to be overwhelmingly Republican.

*The Administration of Herbert Hoover.* Herbert Hoover had become a wealthy man as a result of his successes in the promotion of mining companies. It was inevitable, therefore, that he should be an old-fashioned individualist. He was confident of the destiny of America; regarded with horror the idea of government intervention; and looked upon the federal offices largely as agencies for the promotion of business.

It was not his lot to serve out his term quietly. For the stock-market boom collapsed in October, 1929; and from then on through the rest of his administration depression gripped the land. Hoover also failed to resolve the knotty problems of Prohibition, farm relief, and water-power control. Into the bargain, from December, 1931, to March, 1933, the President was confronted by a hostile Congress. Once more Republican insurgency raised its head; and the insurgent bloc, led in the Senate by Norris of Nebraska, opposed Hoover on his own bills and united with Democrats to override his vetoes. In one area he was to meet with successes; for his Secretary of State, Henry L. Stimson, continued the good work begun by his predecessor and further strengthened America's growing bonds of friendship with the Latin American nations.

### 3. SOME QUESTIONS OF THE HOUR

*Tariffs.* During the twenties, public policy was largely concerned with the writing of tariff legislation, the debate about the Prohibition amendment, and the restriction of immigration. With the Republican party again in control of the presidency and Congress in 1921, it was inevitable that businessmen should demand and legislators should grant an immediate revision of the Democratic tariff of

1913. In May, 1921, Congress wrote the Emergency Tariff Act, which raised duties on agricultural goods, wool, and sugar, and devoted particular attention to the new chemical industry. Meanwhile, the House Ways and Means Committee and the Senate Finance Committee were redevising the whole tariff structure, schedule by schedule. The result of these labors was the Fordney-McCumber



Tariff Act of 1922 which contained the highest rates in American tariff history up to that time.

By 1928, the clamor against the act of 1922 was fairly general. American agriculture had been going through hard times in the twenties and was less sure of the efficacy of protectionism; on the other hand, protected interests felt they had not received enough. Congress therefore sat down once again to tariff tinkering and in May, 1929, the Hawley bill was reported out of committee to the lower House. It was not until May, 1930, that Senate and House could reconcile their differences, and the result of their agreement was the Smoot-Hawley Tariff Act. It turned out to have an even higher general average of rates than its predecessor; for the general average of ad valorem rates in the tariff law of 1922 was 33 percent, and in that of 1930, 40 percent.

One of the most impressive expressions of disapproval of the action of Congress came from one thousand trained economists, who signed a manifesto addressed to President Hoover, urging him to veto the bill. President Hoover refused to agree with these dissidents, insisting that the new tariff act would stay the course of the depression. But Americans in the years that followed were frequently to turn back to this statement of the economists and to ponder over its wisdom. The points the economists stressed were the following: (1) An increase in duties was calculated to raise prices for the consuming public; for high tariff duties encouraged wasteful concerns and unnecessary industries to continue in operation. (2) A high tariff limited the export of both agricultural and manufactured goods by the restrictions it placed on foreign trade. (3) Protectionism was incapable of helping agricultural producers because their surpluses flowed into the world market and helped to fix the world price. (4) A high tariff was bound to affect adversely American investments abroad and prevent the payment by debtor nations of

interest and principal on loans made by Americans. (5) Reprisals by foreign nations were inevitable. (This last turned out to be no idle prophecy. Before 1931 was over, at least twenty-five countries had made extensive tariff revisions or had increased specific duties, or were threatening to do one or the other. In almost every important case, such acts were justified by the fact that the United States itself had led the way in the adoption of an economic-nationalist program when it closed its doors to the entry of foreign goods.)

*Prohibition.* Demand for the outlawing of the manufacture and the dispensing of alcoholic beverages had been an old staple of American reformism. This agitation was finally crowned with success when, in 1917, a new amendment to the Constitution—the Eighteenth—was drawn up by Congress. It aimed at the establishment of national Prohibition under the aegis of the Federal government. In little more than a year, the legislators of three fourths of the states had adopted the amendment and its proclamation followed on January 29, 1919. Congress wrote the Volstead Act for its enforcement; and on January 16, 1920, Prohibition went into effect without any compensation for the economic interests involved.

Prohibition, under the Eighteenth Amendment, had been designed to eradicate two evils—the saloon and intemperance. It is true that the saloon was eliminated by law. But in its place a set of vicious institutions arose—the speakeasies, beer flats, and blind pigs—which, being illegal, could flourish only because they were founded on an open contempt for the law and because they had the protection of a corrupt local officialdom. Also, they sold bad and sometimes poisonous liquor. As for universal temperance, not only was that ideal never attained but it soon appeared that America was drinking almost as much as it had been before 1914.

After a decade of the open flouting of the Amendment, most intelligent Americans had

come to the conclusion that Prohibition could not be enforced; that, indeed, it was producing a new crop of evils as serious as those it had sought to eradicate. It was leading to the demoralization of public officials, gang warfare, and a disrespect for law and law-enforcement agencies. Too, many states and local governments refused to cooperate with Washington.

In 1932, the Democrats finally took the bull by the horns and demanded the repeal of the Eighteenth Amendment, the legalization of beer, and the return of control to the states. Mr. Roosevelt's election seemed to constitute a popular mandate. Congress, therefore, in March, 1933, legalized the manufacture and sale of beer, and passed a joint resolution calling for repeal. The Twenty-first Amendment was ratified before the year was over. The new amendment, in addition to repealing the Eighteenth, promised, to such states as wished to remain dry, federal protection against the transportation and importation of intoxicating liquors into their areas. Before long, most of the states had legalized manufacture and sale, with one form or another of restriction on dispensing. In all not more than four or five states remained bone dry. And thus ended a rather curious effort to intrude upon the private lives of the American people. Intemperance undoubtedly was an evil; but the consequences of control had been equally disturbing. It was doubtful if Americans would tolerate the return of the "noble experiment."

*Immigration Restriction.* The movement inaugurated in the 1890s for the barring of undesirable immigrants and for the restriction of immigration on a selective basis continued with unflagging zeal into the new century. During the first decade, Congress constantly tinkered with the country's immigration code; added long lists of undesirables to those already banned; imposed a head tax and then raised it; compelled steamship companies to assume responsibility for the return of foreign-born in the excluded classes; and finally forced the passage of a bill requiring a literacy test,

over repeated presidential vetoes. Cleveland had vetoed a literacy test in 1897; and so had Taft in 1913, and Wilson once in 1915 and again in 1917. This was the last stand on the part of the executive; for in May, 1917, a new immigration bill, incorporating the literacy-test provision, was passed over Wilson's veto. In addition, more groups were placed on the excluded list and the head tax was again raised, this time to eight dollars.

But the 1917 law, stringent as it was, failed of its purpose, for the fiscal year ending June 30, 1921, saw 800,000 new immigrants entering America. The demand for drastic restriction on a selective basis now once more appeared. Congress yielded; and spent a good deal of time during the twenties trying to perfect legislation that would not do too much violence to traditional American notions. The so-called quota system was adopted as the basis for restriction. The first quota law was that of 1921, and was to remain on the statute books for a year. It provided that a system of quotas was to be set up for newly admitted foreign born, under which the total of any particular nationality to be granted admission was not to exceed 3 percent of the number of persons of that same nationality living in the United States in 1910. The basis of the system was to be land of birth, not the land of last residence, and it was to apply to all countries except those in the Western Hemisphere. In May, 1922, this Emergency Quota Law was reenacted for another two years.

After a good deal of debate, most of it obscure and all of it really unsatisfactory, Congress passed and President Coolidge signed the new Immigration Quota Law of 1924. Here the principle of selection was based upon racial stock. The quota base from July 1, 1924, to June 1, 1927, was to be 2 percent of the foreign born of each nationality resident in the country at the time of the 1890 census. After July 1, 1927, the quota base was to be "that proportion of 150,000 which the number of persons of a given national origin

residing in the United States in 1920 bears to the country's total population in 1920." The minimum quota from any one country was to be 100. The quota system was to apply to all countries with the exception of Canada, Mexico, and the independent nations of Central and South America.

Again there was confusion because of the inability to determine what was the so-called national-origins base of the American population. Hoover asked to be released from the Congressional mandate; Congress refused; with the result that in March, 1929, a set of quotas—admittedly based on guesses—was announced. The new system limited the number of quota immigrants to 150,000 annually; it was particularly partial to prospective im-

migrants from Great Britain and Northern Ireland; it did not seriously affect the comparative status of arrivals from southern and eastern Europe; but it did lower sharply the quotas for Germany, the Irish Free State, and Scandinavia.

By the end of the twenties, therefore, selective immigration had become a reality and the new additions to our population were coming from lands whose racial stocks, or national origins, had been prominent in the settling of America up to the last quarter of the nineteenth century. Thus was ended another epoch in American history: the doors of the United States, as the historic haven of the oppressed in all lands, were swinging shut.

#### 4. DARK CORNERS IN THE UNITED STATES

It would be false to draw the conclusion that Americans lived in smug content as they surveyed their world of the 1920s. There were many dark corners in it, and the thoughtful were not averse to looking into these and calling to the attention of the rest the disconcerting and in fact dangerous things they found there.

*Agriculture.* The agricultural community in the population was in a bad way; indeed, it was apparent that, unless government was prepared to subsidize, agriculture had fallen on permanent hard times. During the whole of the 1920s, it was depressed: land values plunged downward, crop prices dropped, and the burden of debt and taxation became unbearable. In 1919, the total farm income was 15 billions of dollars; by 1929, it was 12 billions; and by 1932, 5 billions. In 1919 (with the average for 1909-14 as 100), the prices paid by farmers for the commodities they needed stood at 206; the prices they received were at 205; making a ratio of prices received to prices paid of 99. In other words, the farm dollar was worth 99 cents. But in 1929, it was worth only 89 cents; and in 1932, only 47

cents. Put simply, during the whole decade farm prices had been sharply deflated; while farm costs—necessaries for home and field, mortgage debt, taxes—were still high. As a result, farms were being sold for tax delinquencies and mortgage defaults; and tenancy was sharply on the increase. In 1880, 25.6 percent of all the farms in the country were being operated by tenants; in 1930 the proportion was 42.4 percent.

Largely at the basis of the agricultural depression lay this simple fact: The foreign market for American agricultural wares was contracting and the domestic market did not expand. As a result of the war and because so many European countries had become debtor nations, it had become increasingly necessary that they grow their own foodstuffs. In addition, new areas of production, particularly in connection with wheat, meat products, and cotton, had appeared; and American agriculture was being compelled, therefore, to meet increasingly the growing competition of the new lands of Canada, Argentina, Australia, and the Far East.

Further, the possibilities of increasing do-

mestic consumption of agricultural goods, in order to take in the slack, were remote. The following factors may be noted: (1) Population growth was slowing down. (2) Profound changes in dietary habits were taking place. (3) Improved methods of heating homes and the growing elimination of the need for hard, physical toil made it possible for men as well as women to dispense with foods with high caloric contents. (4) Cotton was being replaced by rayons and other chemically produced fabrics. (5) Agriculture itself had become more mechanized and efficient—there were, in short, too many farmers.

The depressed state of agriculture made the position of the sharecropper in cotton and tobacco in the South pitiable indeed. Here existed a vast rural slum, where living conditions were at a primitive level; low incomes, inadequate sanitation, and poor diets produced a heavy crop of illness and mortality. The sharecroppers were white as well as black; indeed, by the twenties, the whites, driven off their own subsistence farms, were outnumbering the blacks. Said a Congressional committee report about the plight of these poor people: "We find the unwholesome spectacle of men, women and children . . . moving from farm to farm each year. This social erosion not only wears down the fibers of the families themselves; it saps the resources of the entire social order."

*The Negro.* The problem of the Negro continued to trouble the waters. The Negro had begun to move out of the rural South in the 1880s. He had been brought into the cities of the South as an industrial worker, frequently as a strikebreaker, and he continued to exist on the periphery of heavy industry as an unskilled laborer, the last to be hired and the first to be fired. The skilled crafts affiliated with the American Federation of Labor shut their doors to him. His lot was segregation, and his living was a poverty-stricken one. In 1915-20, the second great Negro migration had taken place, this time into the Northern cities. The Negro came to

work in the new war industries; and again he sometimes appeared as a strikebreaker. The Negro communities of New York, Chicago, Philadelphia, Cleveland, and Detroit expanded greatly and dangerously—dangerously because housing and recreational facilities were inadequate and, because after the war was over, the competition for jobs pitted white worker against black workers. Here, too, segregation appeared, and race tensions now and then reached the breaking point. It was not until the appearance of the CIO that bars to the entrance of Negro labor into unions began to be let down; and it was not until World War II that pressures were beginning to be brought to bear on employers, by federal and state action, to compel creation of equal opportunities for Negro labor in industry.

*The Ku Klux Klan.* There were also ignorance and prejudice to sully the record. The Ku Klux Klan, after sixty years of silence, raised its head once more in the early twenties and under the cloak of secrecy sought to foment racial and religious hatreds by its attacks on Negroes, Catholics, and Jews. The Ku Klux Klan became a great political power in many Southern states and in some Middle Western ones; and it was strong enough to prevent the nomination of Alfred E. Smith for the presidency by the Democratic party in 1924, as we have seen. Fortunately, the leadership was stupid and grasping; and when some of its members assumed public office they engaged in unlawful acts. This made it possible for the law officers to move in, with the result that public exposures shamed many fair-minded persons into leaving the order. By 1925 the Ku Klux Klan was declining. Although there were also other areas in which intolerance appeared, such attitudes were still those of a minority and affected the American way of life—which was uniformly generous and fair-minded—only occasionally.

*The Laissez-Faire State.* Finally, one might mention the passivity of the state. America

was wedded to the theory and practice of laissez-faire, more so, in fact, than any other nation. Federal responsibility for distress, unemployment, insecurity, the fluctuations of the business cycle—this was considered outside the proper function of government. Consequently the Federal government lagged far behind the enlightened countries of Europe in social achievement. Nor was government disposed to interfere in the conduct of business as long as employment continued and there was adequate consumption power. How

entrepreneurs deported themselves, as regards their workers and consumers, and what measures investment bankers took to promote securities and maintain markets for them, presumably lay outside of the governmental concern. There was no understanding yet that runaway booms could be as harmful in their effects on the economy and on the morale of the American people as were the ensuing depressions. These were lessons to be learned; and America was to learn them the hard way.

## 5. THE COURSE OF BUSINESS

*The Recession of 1921-1922.* With the end of World War I, the course of American business climbed to even higher levels than it had reached during the war years themselves. A heavy domestic demand for consumer goods, the revival of commercial and residential construction, the great expansion of foreign trade—these led to a postwar boom. Prices moved up sharply—increasing almost 20 percent in the year and a half from November, 1918, to May, 1920. And profits mounted, corporation net incomes for 1920 exceeding 8.4 billions of dollars.

Then recession took place in May, 1920, and it continued for almost a year. In part this was due to the overstocking of inventories by businessmen, and the consequent overexpansion of bank credit. When credit no longer became available and banks began to call in their loans, businessmen sought to liquidate their stocks of goods and material. Foreign purchasing also declined sharply. As prices dropped and corporation profits melted away, commercial failures and unemployment filled the land. When the deflation spent itself—after more than a year of hard times—wholesale prices had fallen almost 40 percent.

*Prosperity.* In the spring of 1922, revival once more was appearing and, except for brief setbacks in 1924 and 1927, it continued and reached impressive proportions up to 1929.

Unemployment disappeared; real wages went up; corporate profits once more became very large; and the purchasing power of the American people became the wonder of the whole world. The national income by 1929, exceeded more than 83 billions of dollars.

The outstanding forces responsible for this unparalleled prosperity may be noted: (1) Residential, commercial, and industrial construction requirements led to a great building boom which reached its peak in 1925-26. This provided jobs for nearly three millions of construction workers; and also another one and one-half million jobs in the building-materials industries. (2) The great expansion of the automobile industry—in car manufacture and in the allied industries associated with it—had constantly widening effects on employment and profits. (3) New private investment took place in these fields; equally impressive was public investment. New highways, schools, and hospitals were built. (4) There was a vast expansion of the utility industries, particularly in connection with the production of electrical light and power. During the twenties, America's electric power capacity was doubled. (5) Foreign trade revived, thanks to the willingness of the American investor to finance it. That is to say, American tariff laws made it impossible for other peoples to balance imports from the

United States with their own exports. But the constant flow of American capital overseas—invested in foreign securities and properties—paid for European purchases of our automobiles, petroleum, copper products, office appliances, agricultural machinery, and vast quantities of cotton and tobacco. During the five years, 1921-25, American exports every year on an average exceeded imports by 947 millions of dollars; and during the five years 1926-30, by 744 million dollars every year. When the depression set in and foreigners began defaulting on their American dollar bonds, our export trade collapsed. By limiting imports and exporting capital, we had tried to have our cake and eat it, too; and we had failed.

*Prices.* From 1922 to 1929, wholesale prices remained stationary. Usually, in periods of boom, prices rise; and because they did not do so during the twenties, it was assumed that we were experiencing a "profitless economy." This was obviously an inadequate reading of the situation. (1) Corporate profits continued great—the greatest in our history. (2) The over-all average of wholesale prices concealed sharp price drops in agriculture, cotton textiles, and bituminous coal—none of which enjoyed prosperity. (3) Because productivity was increasing on so great a scale during the decade—and because costs were dropping, therefore—prices should have declined. That they did not do so was evidence of the existence of inflation, instead of the reverse. Indeed, it may be said that from 1927 to the summer of 1929 a profit inflation was occurring.

A good deal of the fruits of this last moved into securities speculation, and here prices soared. One may obtain some notion of the inflated value of securities from the downward course they pursued during the depression. On October 1, 1929, the market value of the listed stocks on the New York Stock Exchange was 87 billions of dollars; on November 1, 1930, this had shrunk to 55 billions; and on March 1, 1933, to 19 billions.

*Credit Expansion.* All this fed a constant and extraordinary expansion of credit. Individuals—through installment buying—had no trouble in financing purchases of durable consumer goods—automobiles, furniture, radios, washing machines, vacuum cleaners, refrigerators. At any given time, the installment debt outstanding was as high as two and one half billions of dollars. Nor was it hard for individuals to acquire equities, bonds, real estate; for all they had to do was pledge such properties to acquire the funds to purchase them.

Nor did businessmen and corporations find the processes of going into debt any harder. Companies were refinanced—frequently by the issuance of bonds and preferred stocks—and, with fresh capital, expanded plant and inventories. New holding companies and mergers were created, again accompanied by a pyramiding of capital values. Foreign dollar bonds were floated, with great profit to their promoters. This credit inflation in turn encouraged overexpansion of business enterprise and a further inflation of credit took place. Thus the round continued until the balloon had been blown up to dangerous proportions. When it was pricked, the boom collapsed and the prosperity of the twenties vanished.

Rather than interfere, the Federal government encouraged the credit inflation. In the summer of 1927, with recession threatening to continue, the Federal Reserve Board stepped in and forced down the money rate. It was committed to a regime of "cheap money." From then on, speculation and company promotions could not be checked—and the cycle continued upward until the crash.

*The Depression.* For those who were prepared to read, danger signals were already appearing early in 1929. The great building boom had ended by the fall of 1928; automobile and steel production began dropping off in August, 1929; American oil wells were producing in excess of the market demand

by the same time. The raising of the English money rate to 6½ percent and the outward flow of European capital, in October, 1929, were the first indications that the house of cards was sagging. Actual collapse came in the two weeks following October 24, when stock prices tumbled as much as 80 percent below their highs for September, and almost 25 billions of dollars in market values were wiped out.

Panic led to recession and recession was prolonged into deepening depression during 1930, 1931, and 1932. Between 1929 and 1932,

the total physical output of goods was reduced 37 percent; and total labor income 40 percent. In March, 1933 (with the monthly average of 1923-25 as 100), the index of industrial production stood at 60; that of construction at 14; that of factory employment at 61; that of factory payrolls at 38; that of wholesale prices at 60. The farmers' purchasing power was reduced 50 percent. There were at least 15,000,000 unemployed persons; and with the unprecedented collapse in prices, the burden of debt had become intolerable.

## 6. FOREIGN RELATIONS OF THE TWENTIES

*Imperialism.* Despite the political isolationism of the period and the adoption of high tariff laws, the American economy was extending its influence more and more into regions beyond its borders. This was due to the fact that the United States had become a great creditor nation; and the investments of its citizens were to be found not only in the Western Hemisphere but increasingly in Europe and Asia as well. In a sense, this tendency might be characterized as imperialistic. And yet, on the one hand, it was unlike the older mercantilism of the seventeenth and eighteenth centuries; and, on the other, it differed sharply from the expansive and exploitative programs of European empire-building.

The imperialism of the modern world—the imperialism of colonies, spheres of influence, and protectorates—had these political-economic characteristics: Outposts were necessary in which to establish coaling and naval repair stations and from which to guard vital sea lanes (Gibraltar, Suez, Singapore, and so on). Overseas establishments were important because of the existence of economic and limited raw materials (as vegetable oils in West Africa, tin in Malaya, rubber in the Netherlands Indies). Into the new colonies, spheres of influence, and protectorates could

move the surplus savings for investment for which opportunities in the mother countries were beginning to dwindle. Into them also could move, not so much surplus populations, but those members of the middle class whose training and skills were not completely absorbed at home—the engineers, business executives, civil servants, and army officers.

The modern-day imperialism, unlike the mercantilism of the seventeenth and eighteenth centuries, was not based on a closed system. American capital had just as much chance in Canada as did English capital; and American and English capital were not barred from an independent and sovereign state like Argentina. But in another way the new system was not unlike mercantilism: the colonial establishments were maintained for the benefit of the mother country. That is, standards of living, notably in these regions where there were large native populations (Africa, Asia) were kept at low levels, while the profits of exploitation flowed overseas to the mother country. But this last distinction, however, characterized more particularly the policies of European Powers rather than those of the United States.

In fact it was hard to call the United States an imperialist nation in such terms. True, America had expanded south into the Carib-

bean and westward into the Pacific Ocean. But its interest in the lands around the Panama Canal was founded largely on military necessity; for penetration into this region by any European Power hostile to the United States threatened American existence. And the same was true of the expansion of the United States into the Pacific. The United States faced on two oceans and needed a powerful fleet to patrol both. Such a fleet in the Pacific required coaling and repair stations, as well as outposts from which hostile movements might be detected. If the United States may be said to have adhered consistently to a single policy in its international relations, certainly since the 1890s, it was this double-barreled one that called for a defense of the Caribbean and the western Pacific for military rather than for economic reasons.

*Our Creditor Position.* Indeed, while we were becoming a creditor nation during the 1920s, we found less need for exporting capital overseas for profitable investment than was true of the European countries. It has already been pointed out how, in the twenties, new capital formation was taking place in the United States not only as a result of public investment but also because of the great expansion of America's steel, hydroelectric, automobile, and chemical industries. This was not true of the European nations; they had limited natural resources at home, and with built-up plants in the heavy industries they had to export capital or decline. The contrast may be put sharply and simply in these terms: During the 1920s, roughly from one fourth to one third of English savings went out of that country every year for foreign investment. During the same decade, only about one twentieth of American savings every year had to seek foreign outlets.

Again, only a small part of American overseas investments went into the backward regions of the world. To this extent American capital was not exploitative of native populations. Of the 16 billions of dollars of American private investments abroad at the end of

the 1920s, 4 billions were in Canada and 5 billions were in Europe. We had only 176 millions invested in China; 166 millions in the Philippine Islands; 87 millions in the Dominican Republic; 28 millions in Haiti; and 13 millions in Nicaragua.

Further, American portfolio investments were greater than direct investments. (The term "portfolio investments" means American ownership, without control over policies, of foreign securities of both a public and a private character. The term "direct investments" means American ownership or control over the business policies of foreign factories, mines, branch banks, sales agencies, and the like.) At the end of the 1920s, of the total of 16 billions of dollars of American private holdings abroad, 7.9 billions were in direct investments and 8.2 billions were in portfolio securities. This was the reverse of the experiences of the European imperialist Powers. The fact is, our large portfolio investments, because most of them were in public securities, helped the national, provincial, and local governments of other lands to raise living standards, rather than the reverse. Foreign health, education, and public-works authorities were able to make use of American funds to maintain their activities. An interesting case in point was that of Germany. At the end of 1930, we had 1.4 billions invested there, of which 1.2 billions were in portfolio investments.

And finally, there was a touch of adventurism about much of our investing, notably in the years 1923-30. Because of the bull market at home, and a lack of responsibility on the part of some of America's investment banks, unsound foreign loans were floated in the American money market, which the too gullible American investment public took up without careful scrutiny. Americans were persuaded to buy—and they bought willingly—the dollar bonds of Poland, Bolivia, and Italian cities, and the securities of European manipulators and cheats like Krueger, without responsibility or investigation. The serv-



icing of such securities terminated as soon as the depression set in; and because of such defaults, dollar bonds were bought back at heavy discounts during the early 1930s. Americans therefore lost heavily as a result of these operations.

It has already been said that the United States emerged a creditor nation as a result of World War I. How significantly we advanced along these lines may be noted from the following summary figures: On December 31, 1919, American investments overseas totaled 7 billions of dollars; on the other hand, European investments in the United States came to 4 billions; and this left a net balance in our favor of 3 billions. On December 31, 1929, American investments overseas came to 17 billions of dollars; European investments in the United States totaled 9 billions; and this left a net balance in favor of the United States of 8 billions.

*America as a World Economic Power.* These facts are of the utmost significance to an understanding of America's world position: such great capital operations overseas were not an ephemeral phenomenon which grew out of the unprecedented prosperity of the twenties. This had become a permanent characteristic of the American economy; the United States was one of the great creditor nations of the world. The depression beginning in 1930 affected our position only in detail. And at the end of World War II, virtually all nations of the earth looked to the United States for succor, turning to our savings for credits so that they could restore and advance their industrial processes. If we used our financial strength wisely—demanding that in exchange the channels of world trade be kept open freely and raw materials made accessible to all; if we insisted that such credits be used constructively for new transportation facilities, hydroelectric developments, and heavy industry installations, then our capital would be one of the most beneficent forces in the world. For standards of living every-

where would be raised, and the universal fears of want and insecurity would be routed.

*Naval Limitation.* All this was occurring in the twenties without significant public guidance. Where, however, public policy intervened in international relations, it blundered seriously. There was an air of unreality about the maneuvers of the 1920s.

Of the League of Nations, the United States had formally washed its hands; certainly the problems of Europe—outside of the reparations question—Americans would not touch with a ten-foot pole. The question of European security, the danger of a rearmed and once again powerful Germany—these problems we would not face, and therefore they were banished from our consciousness. On the other hand, we were ready to take the lead in pushing a world program of naval disarmament. For us to disarm under an international authority, with police power—an authority, incidentally, in which we were participating—would have been one thing; for us to disarm in a world where fierce national ambitions and imperialist rivalries once more were raising their heads was another thing and nothing less than quixotic.

These were the horns of the unfortunate dilemma upon which the United States was plunged as a result of the policies of the 1920s. In a sense, our predicament grew out of the fiscal policies of the Secretary of the Treasury, Andrew Mellon. The unbalanced war budgets, the mounting public debt, and the heavy taxes on personal and corporate incomes were regarded with distaste by the Republican administrations. To return to a peacetime basis completely and at once, notably to reduce the cost of government (even if this meant the sacrifice of our naval establishment!) was presumably the most important requirement of a sound national economy. Retrenchment became almost an obsession in Washington—and in the processes we gave up voluntarily that weapon which, had it existed, might have led aggressor and

would-be aggressor nations to take second thought. Ironically enough, too, had the Treasury been less willing to eliminate so quickly the surtaxes on incomes, this fiscal policy might have served as a brake on the runaway securities inflation that took place in the second half of the decade.

*The Washington Conference.* Twice, at the Washington Conference of 1921-22 and at the London Conference of 1930, we took the lead and cut our naval forces—in the interests of world peace. There was to be no peace, as it turned out; the only real result was that Japan lost all fear of an American threat in the Pacific and went about laying plans for the establishment of a Japanese hegemony over the South Seas. By the naval agreements that emerged from the Washington Conference, the United States reduced its capital-ships establishment so sharply that we were incapable of maintaining a two-ocean navy and, therefore, no longer had the strength to exercise an effective and offensive striking power in the Pacific. Also, the United States pledged itself to the maintenance of the *status quo* as far as fortifications and naval bases in the Pacific were concerned. In other words, the long line of American outposts from the Aleutians to the Philippines was to lie undefended. So of course—or presumably—were those islands, once the possession of Germany, which Japan now held as the mandatory power under the League of Nations. Subsequent events were to reveal that the Japanese had not the slightest intention of carrying out their pledge in good faith.

*Chinese Sovereignty.* Gestures were also made in the direction of securing the maintenance of the balance of power in the Pacific and the sovereignty of China. At the Washington Conference, a so-called Four-Power Treaty (the participants being the United States, Great Britain, Japan, and France) was signed whose purpose it was to respect mutually the rights of the signatories in relation to their insular possessions and dominions in

the Pacific. The Nine-Power Treaty (in which the Great Powers were joined by other nations having interests in the Far East) guaranteed the territorial integrity of China with the continued recognition of the Open Door principle. Another agreement among the nine Powers called for the establishment of the principle of China's control over her own tariff and the surrender of extraterritoriality. We made this surrender in 1942 and thus recognized the sovereignty of China without reservation.

Japan was the only gainer. Despite its inadequate resources, it now no longer had to fear the threat of an American capital-ship race, particularly for the control of the Pacific. Japanese naval bases and stations were safe too from American inquisitive eyes; for we were not participating in the mandate machinery. Japan was assured against American fortifications of the Aleutians and Guam. And because destroyers and submarines were not affected by the treaty limitations, Japan could go ahead and build these warships to her heart's content. She did so; while we made no effort to match her new construction. And as for China, Japanese designs were already hatched to overawe that nation.

*The London Conference.* In 1930, at the London Conference, the same road of naval disarmament was followed. America permitted the Japanese to build up to our power in submarines; we gave them greater light cruiser strength, establishing their supremacy in the western Pacific; we renewed our pledges about our Pacific naval bases. We then turned around and yielded before the pressure of England. We limited heavy cruiser construction and consented to build smaller cruisers armed with lower-calibered guns. And we included a so-called Escalator Clause in the treaty which reserved to Great Britain the right to increase its cruiser fleet to two-power standing. Finally, the capital-ship construction holiday, which had been agreed upon at Washington, was to be continued until the

end of 1936. In other words, our State Department had not only surrendered any chance of achieving supremacy in the Pacific, but it had also given up any hope of maintaining it in the Atlantic. Thus the comedy of disarmament was played out to its ironic conclusion; and we had to wait a long time after Japanese aggression had broken out before we were in a position to challenge her pretensions.

*The Postwar Debt Settlement.* Operating outside of the framework of the League, the United States sought to effect another set of agreements—those having to do with the interallied debts. During the pre-armistice and post-armistice periods, the United States had extended, in cash and supplies, credits totaling 10.4 billions of dollars to her allies in World War I. On the other hand, in 1921, the Reparations Commission under the Treaty of Versailles had fixed German indebtedness to the allied nations at 33 billions of dollars. Neither of these accounts, it became quickly apparent, could be settled in full; and it was also more and more obvious that debts and reparations had to be linked together. If the Germans paid reparations, our interallied debtors would pay us.

Thus, we had to become broker and banker at one and the same time without having any power over the economic policy of the vanquished Germany. It came down to this: To collect on the interallied debts, we had to help Germany pay on the reparations account, since her creditors balked at accepting goods. We, therefore, as private bankers, extended loans to Germany. With part of these loans, Germany paid to England, France, Belgium, and Italy; and they paid to us. With another part, Germany maintained a spurious peacetime army and built up her civil aviation industry. To get some of our wartime loans back, we ended by permitting Germany to rearm and to menace once more the European peace settlement. It was along these strange paths that the isolationist policy and the economic program of the Harding-Coolidge-

Hoover administrations took the United States during the 1920s.

Twice—the first time in 1924, as a result of the Dawes Plan; and the second time in 1929, as a result of the Young Plan—the United States helped in the redevising and the cutting down of the reparations bill. But the depression had already set in when the Young Plan was put into effect; and in 1931, President Hoover was compelled to reexamine the problem in all its aspects. The result was the announcement of the so-called Hoover Moratorium, under which neither reparation payments nor interallied debts were to be paid for a whole year. Now and for the first time, Washington had taken official cognizance of what everyone knew had existed: that the two were sides of the same shield. In any case, the Hoover Moratorium continued and neither of the two sets of payments to any measurable extent was ever resumed. What did we get for our pains? Nothing; except perhaps the ill will of the European peoples, who were resentful of our withdrawal into isolationism and of our effort to collect the bill on what had been considered a common war effort.

*The Kellogg-Briand Pact.* The United States refused to assume any responsibility for the maintenance of peace through an international economic and military machinery. This did not prevent us from engaging in harmless gestures. Along with France, the United States initiated a program for outlawing war—without making any provision for checking or punishing aggression. This was the so-called Kellogg-Briand Pact of 1928. All this pact did was to make a number of solemn declarations. Article I outlawed war "as an instrument of national policy." Article II pledged the signatories to the settlement of all disputes, of whatever nature, by pacific means. And that was all. Under the pact, no nation sought to reduce armaments; and in three years, in 1931, the pact was openly flouted when Japan invaded Manchuria. All these earnest labors on the part of Washing-

ton simply ended by destroying American effectiveness when aggression appeared.

*The United States and Latin America.* In the Western Hemisphere, American achievement was more real. We came to a fair understanding with Mexico; we repudiated the Roosevelt Corollary of the Monroe Doctrine; we indicated our willingness to surrender the dubious right of intervention; and we began that Good Neighbor policy which the 1930s were to see so happily extended.

*Mexico.* The Mexican government had gone ahead to implement the mandates of the Constitution of 1917 by passing petroleum and land laws in 1925. These seemed to threaten seriously American property rights; and Secretary of State Kellogg protested against the laws. However, the oil and land statutes were put into effect by Mexico.

The time had now come for a clarification of all the disagreements and misunderstandings with Mexico. In October, 1927, Dwight W. Morrow, partner in J. P. Morgan and Company and personal friend of President Coolidge, was sent as the American ambassador to Mexico City. Morrow was tactful and genuinely friendly, and he carefully cultivated the good will of the Mexican people. The Mexican government was appreciative and at once began to make sweeping concessions. The oil statute was liberalized and assurances were given that the Mexican courts were ready to protect American property rights. In 1929, the Mexican government, which for the preceding three years had been carrying on a heated controversy with the Catholic Church and threatening to seize all church properties and secularize education, adjusted this difficulty, too, on the basis of a compromise. And in 1930, the Mexican churches were once again opened to worshippers. By this step, American Catholics were conciliated and no longer demanded intervention on the part of the United States.

*Caribbean Policy.* In the twenties as well, the United States was clearing out all those

dark corners in the Caribbean which the interventionist policies of Theodore Roosevelt, William Howard Taft, and Woodrow Wilson had permitted to appear. Our marines were withdrawn from the Dominican Republic in 1924, and from Haiti in 1930; and our control over the internal affairs of Nicaragua terminated in 1933. Also, American commissioners committed the United States to a policy of nonintervention in the "internal or external affairs of other American states." Following this assurance, we recognized the Argentine, Brazilian, Bolivian, and Peruvian revolutionary governments of 1930. Only one exception was made and that was in the case of the Central American countries; and here we were agreeing with these nations themselves, on the basis of a convention drawn up in 1923, when they had pledged themselves mutually not to recognize any government in the region which had seized political control by a coup d'état.

*Repudiation of the Roosevelt Corollary.* It has been said that our Caribbean policy had been based largely upon the need for safeguarding the seaway approaches to the Panama Canal. But, from the middle twenties on, even this policy was in process of liquidation: partly because Washington accepted the idea that European Powers no longer were threatening American security in the region, partly because of the need for continuing to gain the good will of Latin American peoples.

The most important step taken in this connection was the repudiation of the Roosevelt Corollary of the Monroe Doctrine. That statement had made the United States stand in the role of guarantor for the nations of the Western Hemisphere—that they would preserve the peace, pay their debts, and meet their financial obligations to European countries. In March, 1930, the State Department made public a memorandum on the Monroe Doctrine, written in 1928 by J. Reuben Clark, at that time Undersecretary of State. In this document the Monroe Doctrine was rede-

fined, this time without those aggressive overtones which had been read into it by Theodore Roosevelt and his successors. The Clark memorandum declared that the Doctrine did not concern itself with purely inter-American relations; it stated a case of the United States versus Europe, and not of the United States versus Latin America. Indeed, Clark went on to say: "So far as Latin America is concerned, the Doctrine is now, and always has been, not an instrument of violence and oppression, but an unbought, freely bestowed and a wholly effective guaranty of their freedom, inde-

pendence, and territorial integrity against the imperialistic designs of Europe."

These developments were positive tokens of good will and were a harbinger of the time when Latin American suspicions of "Yankee imperialism" would largely be dissipated. The policy inaugurated by Secretaries Kellogg and Stimson was continued by Secretary Cordell Hull with the active support of President Franklin D. Roosevelt. At least, the beginnings of the Good Neighbor policy emerged out of the ineptitudes and blunderings of American international relations in the 1920s.

# THE AMERICAN MIND

WESLEY C. MITCHELL

PRICES SOARED after the removal of wartime controls in 1919, and the United States presumably was ready to return to "normalcy." What actually occurred was a sharp inflation and then a sudden collapse: prices dropped badly in 1921; the bottom fell out of the grain market; the bubble of high farm-land values burst and brought many farmers to ruin. Urban values sagged in the same fashion: peace ended the war demand for labor and munitions; wages fell; and the returning veterans added to the labor supply. Unemployment swelled so fast the estimates of 5,000,000 jobless went unchallenged.

President Harding, or rather his Secretary of Commerce, Herbert Hoover, called a Conference on Unemployment. The conference met, appointed a committee of experts to collect statistics, and authorized the printing of a long report considering many phases of the issue, among them the nature and effects of the business cycle.

That study was conducted by one of the country's foremost academic authorities on the problem, Wesley Clair Mitchell (1874- ), professor of economics at Columbia Univer-

sity, and it is his description of the business cycle and its human consequences which opens the economic history of a decade that was to close with the crash of 1929. Professor Mitchell had published his first classic statement on the four phases of the business cycle in 1913; here he reformulates his theory in general terms.

The conference report was published in 1923, when the depression was already over. Agricultural prices remained distressingly low; but expansion in automobiles and the development of a new industry, radio broadcasting, helped blunt the edge of unemployment. The great boom of the later nineteen twenties was in the making, and few heeded the warnings of the experts that unless government and business took proper measures, revival and prosperity would inevitably be followed by crisis and depression.

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## *Business Cycles*

BY WESLEY C. MITCHELL

THE GREAT MASS of the unemployed in periods like that which led President Harding to call the Conference on Unemployment are workers who have been "laid off" because of business depression. The reason why millions of men lose their jobs at such times is that employers are losing money. Hence it is best to begin a study of methods of stabilizing employment by looking into the processes which every few years throw business into confusion.

### I. THE NATURE OF BUSINESS CYCLES

Fifteen times within the past one hundred and ten years, American business has passed through a "crisis." The list of crisis years (1812, 1818, 1825, 1837, 1847, 1857, 1873, 1884, 1890, 1893, 1903, 1907, 1910, 1913, 1920) shows that the periods between successive crises have varied considerably in length. Further, no two crises have been precisely alike and the differences between some crises have

been more conspicuous than the similarities. It is not surprising, therefore, that business men long thought of crises as "abnormal" events brought on by some foolish blunder made by the public or the government. On this view each crisis has a special cause which is often summed up by the newspapers in a picturesque phrase "the Jay Cooke panic" of 1873, "the railroad panic" of 1884, "the Cleveland panic" of 1893, "the rich man's panic" of 1903, "the Roosevelt panic" of 1907.

Longer experience, wider knowledge of business in other countries, and better statistical data have gradually discredited the view that crises are "abnormal" events, each due to a special cause. The modern view is that crises are but one feature of recurrent "business cycles." Instead of a "normal" state of business interrupted by occasional crises, men look for a continually changing state of business—continually changing in a fairly regular way. A crisis is expected to be followed by a depression, the depression by a revival, the revival by prosperity, and prosperity by a new crisis. Cycles of this sort can be traced for at least one century in America, perhaps for two centuries in the Netherlands, England, and France, and for shorter periods in Austria, Germany, Italy, Spain, and the Scandinavian countries. Within a generation or two similar cycles have begun to run their courses in Canada and Australia, South America, Russia, British India, and Japan.

At present it is less likely that the existence of business cycles will be denied than that their regularity will be exaggerated. In fact, successive cycles differ not only in length, but also in violence, and in the relative prominence of their various manifestations. Sometimes the crisis is a mild recession of business activity as in 1910 and 1913; sometimes it degenerates into a panic as in 1873, 1893, and 1907. Sometimes the depression is interrupted by an abortive revival as in 1895, sometimes it is intensified by financial pressure as in 1896 and 1914. Sometimes the depression is brief and severe as in 1908, sometimes it is brief and mild as in 1911, sometimes it is both long and severe as in 1874-1878. Revivals usually develop into full-fledged prosperity, but there are exceptions like that of 1895. Prosperity may reach a high pitch as in 1906-1907 and 1916-1917, or may remain moderate until overtaken by a mild crisis as in 1913, or by a severe panic as in 1893.

These differences among business cycles arise from the fact that the business situation at any given moment is the net resultant of a complex of forces among which the rhythm of business activity is only one. Harvest conditions, domestic

politics, changes in monetary and banking systems, international relations, the making of war or of peace, the discovery of new industrial methods or resources, and a thousand other matters all affect the prospects of profits favorably or adversely and therefore tend to quicken or to slacken the pace of business. The fact that the rhythm of business activity can be traced in the net resultants produced by these many factors argues that it is one of the most constantly acting, and probably one of the most powerful, factors among them. . . .

Even when the problem is simplified in this way, it remains exceedingly complex. To keep from getting lost in a maze of complications, it is necessary to follow constantly the chief clue to business transactions. Every business establishment is supposed to aim primarily at making money. When the prospects of profits improve, business becomes more active. When these prospects grow darker, business becomes dull. Everything from rainfall to politics which affects business exerts its influence by affecting this crucial factor—the prospects of profits. The profits clue will not only prevent one from going astray, but will also enable one to thread the business maze slowly, if he chooses, taking time to examine all details, or to traverse the maze rapidly with an eye only for the conspicuous features. Needless to say, in this chapter we shall have to move rapidly.

## II. PLAN OF DISCUSSION

Since business cycles run an unceasing round, each cycle growing out of its predecessor and merging into its successor, our analysis can start with any phase of the cycle we choose. With whatever phase of the cycle we start, we shall have to plunge into the middle of things, taking the business situation as it then stands for granted. But once this start has been made, the course of the subsequent discussion is fixed by the succession of phases through which the cycle passes. By following these phases around the full cycle we shall come back to the starting point and end the discussion by accounting for the situation of business which we took for granted at the beginning.

With full liberty of choice, it is well to start with the phase of the cycle through which American business is passing at present—the phase of revival after a depression. The first task will be to see how such a revival gathers momentum and produces prosperity. Then in order will come a discussion of how prosperity produces conditions which lead to crises, how crises run out into depressions, and finally how depressions after a time produce conditions which lead to new revivals.

This whole analysis will be a brief account of

the cycle in general business. But it is important to note that different industries are affected by business cycles in different ways. Some industries, for example, are hit early and hit hard by a decline in business activity, while other industries are affected but slightly. This aspect of the subject has received scant attention from investigators so far, and it cannot be adequately treated until the various industries have collected far more systematic records of their changing fortunes than are now available outside a narrow field. But with the cooperation of trade associations and certain business men we have collected some data that show how important and how promising is further work along similar lines. This material concerning the effect of business cycles upon particular industries will be presented in the next chapter after the cycle in general business has been traced.

### III. REVIVALS AND THE CUMULATION OF PROSPERITY

A period of depression produces after a time certain conditions which favor an increase of business activity. Among these conditions are a level of prices low in comparison with the prices of prosperous times, drastic reductions in the cost of doing business, narrow margins of profit, ample bank reserves, and a conservative policy in capitalizing business enterprises and in granting credits.

These conditions are accompanied sooner or later by an increase in the physical volume of purchases. When a depression begins, business enterprises of most sorts have in stock or on order liberal supplies of merchandise. During the earlier months of dullness they fill such orders as they can get mainly from these supplies already on hand, and in turn they buy or manufacture new supplies but sparingly. Similarly, families and business concerns at the end of a period of prosperity usually have a liberal stock of clothing, household furnishings, and equipment. For a while they buy little except the perishable goods which must be continuously consumed, like food and transportation. But after depression has lasted for months, the semi-durable goods wear out and must be replaced or repaired. As that time comes there is a gradual increase of buying, and as the seller's stocks are gradually reduced, there is also a slow increase of manufacturing.

Experience indicates that, once begun, a recovery of this sort tends to grow cumulatively. An increase in the amount of business that a merchant gets will make him a little readier to renew his shabby equipment and order merchandise in advance of immediate needs. An increase in the number of men employed by factories will lead to larger family purchases and so to more manu-

facturing. The improving state of trade will produce a more cheerful state of mind among business men, and the more cheerful state of mind will give fresh impetus to the improvement in trade. It is only a question of time when such an increase in the volume of business will turn dullness into activity. Sometimes the change is accelerated by some propitious event arising from other than business sources, for example, good harvests, or is retarded by some influence, such as political uncertainties. Left to itself, the transformation proceeds slowly but surely.

While the price level is often sagging slowly when a revival begins, the cumulative expansion in the physical volume of trade presently stops the fall and starts a rise. For, when enterprises have in sight as much business as they can handle with their existing facilities of standard efficiency, they stand out for higher prices on additional orders. This policy prevails even in the most keenly competitive trades, because additional orders can be executed only by breaking in new hands, starting old machinery, buying new equipment, or making some other change which involves increased expense. The expectation of its coming hastens the advance. Buyers are anxious to secure or to contract for large supplies while the low level of quotations continues, and the first definite signs of an upward trend of quotations brings out a sudden rush of orders.

Like the increase in the physical volume of business, the rise of prices spreads rapidly; for every advance of quotations puts pressure upon someone to recoup himself by making a compensatory advance in the prices of what he has to sell. The resulting changes in prices are far from even, not only as between different commodities, but also as between different parts of the system of prices. In most but not all cases, retail prices lag behind wholesale, the prices of staple consumers' behind the prices of staple producers' goods, and the prices of finished products behind the prices of raw materials. Among raw materials, the prices of mineral products reflect the changed business conditions more regularly than do the prices of raw animal, farm, or forest products. Wages rise sometimes more promptly, but nearly always in less degree than wholesale prices; discount rates rise sometimes more slowly than commodities and sometimes more rapidly; interest rates on long loans move sluggishly in the early stages of revival, while the prices of stocks—particularly of common stocks—generally precede and exceed commodity prices on the rise. The causes of these differences in the promptness and the energy with which various classes of prices respond to the stim-



ulus of business activity are found partly in differences of organization among the markets for commodities, labor, loans, and securities; partly in the technical circumstances affecting the relative demand for and supply of these several classes of goods; and partly in the adjusting of selling prices to changes in the aggregate of buying prices which a business enterprise pays, rather than to changes in the prices of the particular goods bought for resale.

In the great majority of enterprises, larger profits result from these divergent price fluctuations coupled with the greater physical volume of sales. For, while the prices of raw materials and of wares bought for resale usually, and the prices of bank loans often, rise faster than selling prices, the prices of labor lag far behind, and the prices which make up overhead costs are mainly stereotyped for a time by old agreements regarding salaries, leases, and bonds.

This increase of profits, combined with the prevalence of business optimism, leads to a marked expansion of investments. Of course the heavy orders for machinery, the large contracts for new construction, etc., which result, swell still further the physical volume of business and render yet stronger the forces which are driving prices upward.

Indeed, the salient characteristic of this phase of the business cycle is the cumulative working of the various processes which are converting a revival of trade into intense prosperity. Not only does every increase in the physical volume of trade cause other increases, every convert to optimism make new converts, and every advance of prices furnish an incentive for fresh advances, but the growth of trade helps to spread optimism and to raise prices, while optimism and rising prices both support each other and stimulate the growth of trade. Finally, as has just been said, the changes going forward in these three factors swell profits and encourage investments, while high profits and heavy investments react by augmenting trade justifying optimism, and raising prices.

#### IV. HOW PROSPERITY BREEDS A CRISIS

While the processes just sketched work cumulatively for a time to enhance prosperity, they also cause a slow accumulation of stresses within the balanced system of business—stresses which ultimately undermine the conditions upon which prosperity rests.

Among these stresses is the gradual increase in the costs of doing business. The decline in overhead costs per unit of output ceases when enterprises have once secured all the business they can

handle with their standard equipment, and a slow increase of these costs begins when the expiration of old contracts makes necessary renewals at the high rates of interest, rent, and salaries which prevail in prosperity. Meanwhile the operating costs rise at a relatively rapid rate. Equipment which is antiquated and plants which are ill located or otherwise work at some disadvantage are brought again into operation. The price of labor rises, not only because the standard rates of wages go up, but also because of the prevalence of higher pay for overtime. More serious still is the fact that the efficiency of labor declines, because overtime brings weariness, because of the employment of "undesirables," and because crews cannot be driven at top speed when jobs are more numerous than men to fill them. The prices of raw materials continue to rise faster on the average than the selling prices of products. Finally, the numerous small wastes, incident to the conduct of business enterprises, creep up when managers are hurried by a press of orders demanding prompt delivery.

A second stress is the accumulating tension of the investment and money markets. The supply of funds available at the old rates of interest for the purchase of bonds, for lending on mortgages, and the like, fails to keep pace with the rapidly swelling demand. It becomes difficult to negotiate new issues of securities except on onerous terms, and men of affairs complain of the "scarcity of capital." Nor does the supply of bank loans grow fast enough to keep up with the demand. For the supply is limited by the reserves which bankers hold against their expanding liabilities. Full employment and active retail trade cause such a large amount of money to remain suspended in active circulation that the cash left in the banks increases rather slowly, even when the gold supply is rising most rapidly. On the other hand, the demand for bank loans grows not only with the physical volume of trade, but also with the rise of prices, and with the desire of men of affairs to use their own funds for controlling as many business ventures as possible. Moreover, this demand is relatively inelastic, since many borrowers think they can pay high rates of discount for a few months and still make profits on their turnover, and since the corporations which are unwilling to sell long-time bonds at the hard terms which have come to prevail try to raise part of the funds they require by discounting notes running only a few years.

Tension in the bond and money markets is unfavorable to the continuance of prosperity, not only because high rates of interest reduce the prospective margins of profit, but also because they check the expansion in the volume of trade

out of which prosperity developed. Many projected ventures are relinquished or postponed, either because borrowers conclude that the interest would absorb too much of their profits, or because lenders refuse to extend their commitments farther.

The credit expansion, which is one of the most regular concomitants of an intense boom, gives an appearance of enhanced prosperity to business. But this appearance is delusive. For when the industrial army is already working its equipment at full capacity, further borrowings by men who wish to increase their own businesses cannot increase appreciably the total output of goods. The borrowers bid up still higher the prices of commodities and services, and so cause a further expansion in the pecuniary volume of trade. But they produce no corresponding increase in the physical volume of things men can consume. On the contrary, their borrowings augment that mass of debts, many protected by insufficient margins, which at the first breath of suspicion leads to the demands for liquidation presently to be discussed.

The difficulty of financing new projects intensifies the check which one important group of industries has already begun to suffer from an earlier-acting cause. The industries in question are those which produce industrial equipment—tools, machines, plant—and the materials of which this equipment is made, from lumber and cement to copper and steel.

The demand for industrial equipment is partly a replacement demand and partly a demand for betterments and extensions. The replacement demand for equipment doubtless varies with the physical quantity of demand for products; since, as a rule, the more rapidly machines and rolling stock are run, the more rapidly they wear out. The demand for betterments and extensions, on the other hand, varies not with the physical quantity of the products demanded, but with the fluctuations in this quantity. . . .

. . . During depression and early revival the equipment-building trades get little business except what is provided by the replacement demand. When the demand for products has reached the stage where it promises soon to exceed the capacity of existing facilities, however, the equipment trades experience a sudden and intense boom. But their business falls off again before prosperity has reached its maximum, provided the *increase* in the physical quantity of products slackens before it stops. Hence the seeming anomalies pointed out by J. Maurice Clark:

The demand for equipment may decrease . . .

even though the demand for the finished product is still growing. The total demand for [equipment] tends to vary more sharply than the demand for finished products. . . . The maximum and minimum points in the demand for [equipment] tend to precede the maximum and minimum points in the demand for the finished products, the effect being that the change may appear to precede its own cause.

When we add to the check in the orders for new equipment arising from any slackening in the increase of demand for products, the further check which arises from stringency in the bond market and the high cost of construction, we have no difficulty in understanding why contracts for this kind of work become less numerous as the climax of prosperity approaches. Then the steel mills, foundries, machine factories, copper smelters, quarries, lumber mills, cement plants, construction companies, general contractors, and the like find their orders for future delivery falling off. While for the present they may be working at high pressure to complete old contracts within the stipulated time, they face a serious restriction of trade in the near future.

The imposing fabric of prosperity is built with a liberal factor of safety; but the larger grows the structure, the more severe become these internal stresses. The only effective means of preventing disaster while continuing to build is to raise selling prices time after time high enough to offset the encroachments of costs upon profits, to cancel the advancing rates of interests, and to keep producers willing to contract for fresh industrial equipment.

But it is impossible to keep selling prices rising for an indefinite time. In default of other checks, the inadequacy of cash reserves would ultimately compel the banks to refuse a further expansion of loans upon any terms. But before this stage has been reached, the rise of prices may be stopped by the consequences of its own inevitable inequalities. These inequalities become more glaring the higher the general level is forced; after a time they threaten serious reduction of profits to certain business enterprises, and the troubles of these victims dissolve that confidence in the security of credits with which the whole towering structure of prosperity has been cemented.

What, then, are the lines of business in which selling prices cannot be raised sufficiently to prevent a reduction of profits. There are certain lines in which selling prices are stereotyped by law, by public commissions, by contracts of long terms,

by custom, or by business policy, and in which no advance, or but meager advances can be made. There are other lines in which prices are always subject to the incalculable chances of the harvests, and in which the market value of all accumulated stocks of materials and finished goods wavers with the crop reports. There are always some lines in which the recent construction of new equipment has increased the capacity for production faster than the demand for their wares has expanded under the repressing influence of the high prices which must be charged to prevent a reduction of profits. The unwillingness of producers to let fresh contracts threatens loss not only to contracting firms of all sorts, but also to all the enterprises from whom they buy materials and supplies. The high rates of interest not only check the current demand for wares of various kinds, but also clog the effort to maintain prices by keeping large stocks of goods off the market until they can be sold to better advantage. Finally, the very success of other enterprises in raising selling prices fast enough to defend their profits aggravates the difficulties of the men who are in trouble; for to the latter every further rise of prices for products which they buy means a further strain upon their already stretched resources.

As prosperity approaches its height, then, a sharp contrast develops between the business prospects of different enterprises. Many, probably the majority, are making more money than at any previous stage of the business cycle. But an important minority, at least, face the prospect of declining profits. The more intense prosperity becomes, the larger grows this threatened group. It is only a question of time when these conditions, bred by prosperity, will force some radical readjustment.

Now such a decline of profits threatens worse consequences than the failure to realize expected dividends, for it arouses doubt concerning the security of outstanding credits. Business credit is based primarily upon the capitalized value of present and prospective profits, and the volume of credits outstanding at the zenith of prosperity is adjusted to the great expectations which prevail when the volume of trade is enormous, when prices are high, and when men of affairs are optimistic. The rise of interest rates has already narrowed the margins of security behind credits by reducing the capitalized value of given profits. When profits themselves begin to waver, the case becomes worse. Cautious creditors fear lest the shrinkage in the market rating of the business enterprises which owe them money will leave no adequate security for repayment; hence they begin to refuse renewals of old loans to the enter-

prises which cannot stave off a decline of profits, and to press for a settlement of outstanding accounts.

Thus prosperity ultimately brings on conditions which start a liquidation of the huge credits which it has piled up. And in the course of this liquidation, prosperity merges into crisis.

## V. CRISES

Once begun, the process of liquidation extends very rapidly, partly because most enterprises which are called upon to settle their maturing obligations in turn put similar pressure upon their own debtors, and partly because, despite all efforts to keep secret what is going forward, news presently leaks out and other creditors take alarm.

While this financial readjustment is under way, the problem of making profits on current transactions is subordinated to the more vital problem of maintaining solvency. Business managers concentrate their energies upon providing for their outstanding liabilities and upon nursing their financial resources, instead of upon pushing their sales. In consequence, the volume of new orders falls off rapidly; that is, the factors which were already dimming the prospects of profits in certain lines of business are reinforced and extended. Even when the overwhelming majority of enterprises meet the demand for payment with success, the tenor of business developments undergoes a change. Expansion gives place to contraction, though without a violent wrench. Discount rates rise higher than usual, securities and commodities fall in price, and as old orders are completed, working forces are reduced; but there is no epidemic of bankruptcies, no run upon banks, and no spasmodic interruption of the ordinary business processes.

At the opposite extreme from crises of this mild order stand the crises which degenerate into panics. When the process of liquidation reaches a weak link in the chain of interlocking credits and the bankruptcy of some conspicuous enterprise spreads unreasoning alarm among the business public, then the banks are suddenly forced to meet a double strain—a sharp increase in the demand for loans, and a sharp increase in the demand for repayment of deposits. If the banks prove able to honor both demands without flinching, the alarm quickly subsides. But if, as in 1873, 1893, and 1907, many solvent business men are refused accommodation at any price, and if depositors are refused payment in full, the alarm turns into panic. A restriction of payments by the banks gives rise to a premium upon currency, to the hoarding of

cash, and to the use of various unlawful substitutes for money. A refusal by the banks to expand their loans, still more a policy of contraction, sends interest rates up to three or four times their usual figures, and causes forced suspensions and bankruptcies. Collections fall into arrears, domestic exchange rates are dislocated, workmen are discharged because employers cannot get money for pay-rolls or fear lest they cannot collect pay for goods when delivered, stocks fall to extremely low levels, even the best bonds decline somewhat in price, commodity markets are disorganized by sacrifice sales, and the volume of business is violently contracted.

## VI. DEPRESSIONS

The period of severe financial pressure is often followed by the reopening of numerous enterprises which had been shut for a time. But this prompt revival of activity is partial and short-lived. It is based chiefly upon the finishing of orders received but not completely executed in the preceding period of prosperity, or upon the effort to work up and market large stocks of materials already on hand or contracted for. It comes to an end as this work is gradually finished, because new orders are not forthcoming in sufficient volume to keep the mills and factories busy.

There follows a period during which depression spreads over the whole field of business and grows more severe. Consumers' demand declines in consequence of wholesale discharges of wage-earners, the gradual exhaustion of past savings, and the reduction of other classes of family incomes. With consumers' demand falls the business demand for raw materials, current supplies, and equipment used in making consumers' goods. Still more severe is the shrinkage of producers' demand for construction work of all kinds, since few individuals or enterprises care to sink money in new business ventures so long as trade remains depressed and the price level is declining. The contraction in the physical volume of business which results from these several shrinkages in demand is cumulative, since every reduction of employment causes a reduction of consumers' demand, and every decline in consumers' demand depresses current business demand and discourages investment, thereby causing further discharges of employees and reducing consumers' demand once more.

With the contraction in the physical volume of trade goes a fall of prices; for, when current orders are insufficient to employ the existing industrial equipment, competition for what business is to be had becomes keener. This decline spreads through

the regular commercial channels which connect one enterprise with another, and is cumulative, since every reduction in price facilitates, if it does not force, reductions in other prices, and the latter reductions react in their turn to cause fresh reductions at the starting point.

As the rise of prices which accompanies revival, so the fall which accompanies depression is characterized by market differences in degree. Wholesale prices usually fall faster than retail, the prices of producers' goods faster than those of consumer's goods, and the prices of raw materials faster than those of manufactured products. The prices of raw mineral products follow a more regular course than those of raw forest, farm, or animal products. As compared with the general index numbers of commodity prices at wholesale, index numbers of wages and interest on long-time loans decline in less degree, while index numbers of discount rates and of stocks decline in greater degree. The only important group of prices to rise in the face of depression is that of high-grade bonds.

Of course, the contraction in the physical volume of trade and the fall of prices reduce the margin of present and prospective profits, spread discouragement among business men, and check enterprise. But they also set in motion certain processes of readjustment by which depression is gradually overcome.

The operating costs of doing business are reduced by the rapid fall in the prices of raw materials and of bank loans, by the increase in the efficiency of labor which comes when employment is scarce and men are anxious to hold their jobs, by closer economy on the part of managers, and by the adoption of improved methods. Overhead costs, also, are reduced by reorganizing enterprises which have actually become or which threaten to become insolvent, by the sale of other enterprises at low figures, by reduction of rentals and refunding of loans, by charging off bad debts and writing down depreciated properties, and by admitting that a recapitalization of business enterprises—corresponding to the lower prices of stocks—has been effected on the basis of lower profits.

While these reductions in costs are still being made, the demand for goods ceases to shrink and begins slowly to expand—a change which usually comes after one or two years of depression. Accumulated stocks left over from prosperity are gradually exhausted, and current consumption requires current production. Clothing, furniture, machinery, and other moderately durable articles which have been used as long as possible are finally discarded and replaced. Population continues to

increase at a fairly uniform rate; the new mouths must be fed and new backs clothed. New tastes appear among consumers and new methods among producers, giving rise to demand for novel products. Most important of all, the investment demand for industrial equipment revives; for, though saving slackens it does not cease, with the cessation of foreclosure sales and corporate reorganizations the opportunities to buy into old enterprises at bargain prices become fewer, capitalists become less timid as the crisis recedes into the past, the low rates of interest on long-term bonds encourage borrowing, the accumulated technical improvements of several years may be utilized, and contracts can be let on most favorable conditions as to cost and prompt execution.

Once these various forces have set the physical volume of trade to expanding again, the increase proves cumulative, though for a time the pace of

growth is kept slow by the continued sagging of prices. But while the latter maintains the pressure upon business men and prevents the increased volume of orders from producing a rapid rise of profits, still business prospects become gradually brighter. Old debts have been paid, accumulated stocks of commodities have been absorbed, weak enterprises have been reorganized, the banks are strong—all the clouds upon the financial horizon have disappeared. Everything is ready for a revival of activity, which will begin whenever some fortunate circumstance gives a sudden fillip to demand, or, in the absence of such an event, when the slow growth of the volume of business has filled order books and paved the way for a new rise of prices.

Such is the stage of the business cycle with which the analysis began, and, having accounted for its own beginning, the analysis ends.

# THE AMERICAN SCENE

EDWIN F. GAY

THE CONFERENCE ON UNEMPLOYMENT, called by the President in 1921 when the country was assailed by a sharp postwar depression, gave rise to three national surveys which afford considerable information about the economic conditions out of which grew the great depression of the nineteen thirties. Mention has already been made of the fate of the study of unemployment and the business cycle that was made by the committee appointed by the Conference. The committee's survey of seasonal operations in the construction industry was limited in scope. The third survey, *Recent Economic Changes* (1929), described in elaborate detail the economic institutions of the America of the Golden Age.

With the information of the experts to guide it, the committee (headed by Herbert Hoover, then Secretary of Commerce, and numbering representatives of industry and labor among its members) proceeded to interpretation. It is the scale and above all the tempo of change that makes the new era distinctive. But the period 1922-29 has been marked not only by unexampled activity but also by lags in certain areas, such as cotton and woolen textiles, coal and staple agriculture. Prices have been stable on the whole, so that the cost of living rose less than wages, thereby assuring the United States of progressively increasing standards of living. At the same time, productivity in both industry and agriculture achieved new heights. With the advance in productivity and real wages, consumption has leaped ahead, justifying the ancient prediction that man's wants and, by implication, the economic machine that existed to satisfy them were capable of indefinite expansion. Food, clothing and shelter have taken a relatively small part of that in-

crease, however; the American people spend a decreasing part of their income on fundamental necessities. Their expenditures have turned to relative luxuries, more attractive clothes, more palatable food, durable consumer goods like radios and automobiles and, finally, to an increasing degree of leisure. As the trends of consumption have altered, the service trades have expanded, absorbing some of the employment slack left by technological advance.

Yet, despite great natural resources and the vast opportunities latent in the development of existing industries and the growth of harmonious cooperation among all groups in the nation, the United States must accept and apply the principle of equilibrium. Consequently, the President's Committee warns of the danger in wasted natural resources, the disregard of the common interest by management and labor, selfish pricing policies, and the transfer of money from production to speculation. In the years between 1922 and 1927-28, equilibrium has been well maintained: industrial peace has saved our energies; savings have not, until recently, been diverted to speculation; while study and advertising have helped produce a better balance between production and consumption.

Even in the optimistic conclusions of the committee, some misgivings may be seen. The growth of unemployment in time of prosperity is admitted, with the assurance, however, that leisure and the service trades will absorb it in time. The plight of agriculture is described. There are inadequacies in the banking mechanism. But the Committee posted no warnings and flew no danger signals.

For Edwin F. Gay (1867-1946), professor of economic history at Harvard and director of

the research staff which made the studies that constitute *Recent Economic Changes*, the prosperity of the nineteen twenties was not an entirely new phenomenon, however startling it might appear to European observers of the American scene. These observers do not agree about what they see or the reasons for it, but they do not differ about the factors controlling recent American experience: the United States is in possession of the natural resources most needed for industrial development, while her labor supply is still relatively small. Hence, a mobility which promotes optimism, high wages, and a great expansion of mechanization to economize labor and lower the cost of pay-rolls. Resources, labor, and machinery must be used to supply a large market. The market which the United States offers is huge in area and free of local barriers. High wages, complex machinery, and a broad market have offered a challenge to management. That challenge has been met by the development of business as a profession on the one hand and "welfare capitalism" on the other. And, on all levels of American life, there prevails an energetic hopefulness rather startling to Europeans conditioned to a society whose hierarchical patterns have not yet been completely shattered.

None of these factors is novel to the student of American history, Gay observes. Labor has always been scarce, management has long been ingenious, and Americans have been optimistic, energetic, adaptable, and inventive since the first European traveler discovered them. Nor is the present period of advance a novelty.

Gay points to the flourishing decade between 1825 and the crisis of 1837; the years following the discovery of gold in California; the recovery after the depression of 1873-1879, when prosperity reigned from 1879 to 1893, broken only by the minor crises of 1883 and 1886; the years between the Spanish-American War and the crisis of 1907; and even the long economic calm between that date and the first World War. Each of those periods was marked by technological advance, the rise of real wages, and changes in the organization of business as well as in the technical methods of industry.

It is not in those respects that the prosperity of the nineteen twenties differs from that of previous periods. There has been a shift toward stability, Gay finds; an increasing reluctance to accept the "rough dislocations" of change; a rising social responsibility; a diffusion of investment into groups which had never before owned securities. Novel, too, are the lack of popular resentment of corporate growth and an "open-mindedness of the public" which has not troubled this period with anything like Jacksonian democracy, Populism, or the "reform" movements of the years preceding the first World War.

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## *Recent Economic Changes*

BY EDWIN F. GAY

### INTRODUCTION

THERE IS a measure of truth in the statement that the perspective of distance is analogous to that of time. The foreign observer imports his own preconceptions, and from the nature of his situation is likely to be inaccurate as to details, but he sees things in the mass. He generalizes on inadequate

data, as must the historian, but it is often instructive to see through his eyes. What to the native is negligible matter of daily use and wont is lifted by the intelligent foreigner to the plane of a national characteristic or an important trend of social development. There have been many such travelers in the United States since the beginning of its history, and diverse have been their observa-

tions, but never has the flow of visitors and comment been so great as in recent years. Inquirers and writers from many countries, official and unofficial, literary folk and technicians, business men and representatives of labor, have come singly and in groups. During the last six or seven years, books, reports and articles, in many languages, describing, explaining or criticizing the economic and social situation in the United States, have appeared in unparalleled quantity. This has been heralded as the new Discovery of America.

Foreign Opinions.—Despite much divergence of opinion among these contemporaneous observers as to causes and conditions, there is marked unanimity as to the fact which is chiefly responsible for this extraordinary interest. They agree that of late there has been an "immense advance in America."<sup>1</sup> Our visitors are "impressed, everywhere and every day, by the evidences of an ebullient prosperity and a confidence in the future."<sup>2</sup> Even a skeptical Australian journalist who begins by doubting the very fact for which all other visitors are seeking the cause, namely the existence of high wages in the United States, ends by saying that "America has been experiencing a period of unusual industrial prosperity. Millions of people have found their earnings increasing at a more rapid rate than their standard of living."<sup>3</sup> The critical German trade-unionists, in their careful report, believe that American prosperity has within it the seeds of its later undoing, but they bear witness to the high earnings and effectiveness of the American worker, his mobility and freedom from class antagonism, and above all to the prevalent well-being and optimism of Americans in general.<sup>4</sup> A German industrialist declares that, with an economic supremacy characterized by high wages and machine progress, the United States has become "the first power of the world."<sup>5</sup>

The consensus of foreign opinion concerning the present great American prosperity is evident to any student of this recent literature. But, though it might be interesting, it would certainly be a difficult and a time-consuming task to trace all the divergences of point of view and the differing degrees of emphasis as to the causes of that prosperity. Some of the travelers have returned home

to spread the gospel of mass production, of automatic machinery and conveyers. But *Fordismus* and *Rationalisierung*, the slogans of these evangelists, have also been acrimoniously criticised. Ramsay Muir asserts, indeed, that "the methods of mass-production have not been introduced, and cannot be introduced, in the greater part even of American industry," but he elsewhere lays stress upon the factors of great natural resources and a great domestic free-trade market which have made mass production possible for the United States. England, by contrast, lives "by supplying the needs of world-wide markets, infinitely variegated," and must therefore make quality, not quantity, its aim.<sup>6</sup> Dr. Heinrich Ludwig complains that his German compatriots have, since the war, studied American industry too superficially. Ford, he declares, is not typical of the new management methods in the United States, and scientific management (*Rationalisierung*) has been misconceived in Europe as concerned primarily with mechanical equipment. It is not American technique but American psychology which should be studied. Its chief characteristics, he asserts, are optimism tempered by statistics and experiment; its aim is stabilization; the secret of American success is its study of the market.<sup>7</sup>

America has become the arsenal whence weapons are drawn for both sides of embittered argument. It is, for instance, to some European protectionists a demonstration of the benefits of a high protective tariff; to other writers it is a proof in its free-trade continental market of the correctness of the commercial principles urged by the *laissez-faire* economists;<sup>8</sup> and it is also a reinforcing support to the advocates of a European *Zoll-Verein*. Its high wages are both the cause and the result of its prosperity.<sup>9</sup> The labor situation of the United States, so puzzling to the foreign workers who are surprised at the friendly working spirit in American labor-relations,<sup>10</sup> furnishes grounds both for attack and defense in respect to trade-union policy. Some observers emphasize American individualism,<sup>11</sup> others our spirit of co-operation,

<sup>6</sup> Ramsay Muir, *op. cit.*, pp. 73-76, 137.

<sup>7</sup> Heinrich Ludwig, *Systematische Wirtschaft, Amerikanische Methoden, Deutsche Verhältnisse*, 1928, *passim*.

<sup>8</sup> Yves-Guyot, "Les États-Unis d'aujourd'hui," *Journal des Economistes*, Vol. 87 (1927), p. 15.

<sup>9</sup> Exponents, illustrating these contrasting views in the German pamphlet-war, are Tarnow, President of the German Woodworkers' Union, and the *Vereinigung der deutschen Arbeitgeberverbände*.

<sup>10</sup> See the Daily Mail Trade Union Mission to the United States, 1927.

<sup>11</sup> British Official Report, 1927, p. 15.

<sup>1</sup> Sir Josiah Stamp, *Some Economic Factors in Modern Life*, 1929, p. 121.

<sup>2</sup> Ramsay Muir, *America the Golden*, 1927, p. 1.

<sup>3</sup> H. G. Adam, *An Australian Looks at America*, 1928, pp. 35, 116.

<sup>4</sup> *Amerikareise deutscher Gewerkschaftsführer*, 1926, pp. 29, 48, 95, 193, 198.

<sup>5</sup> Carl Kötting, *Das Wirtschaftliche Amerika*, 3rd edition, 1926, p. iii.



our "unconscious socialism,"<sup>12</sup> while one economist shrewdly remarks that the pioneer's struggle with the wilderness simultaneously developed both of these apparently incompatible traits.<sup>13</sup> We are assured that America is a land of contrasts, with great diversity of regions and races, and also that it is the home of a nation remarkable for its uniformity of tastes and its passion for standardization. Its people are massed increasingly in monotonous repetitive machine-labor; yet they show high intelligence and mobility in a free field for ambition. The condition of the farmer in the United States is called by Ramsay Muir one of the "spots on the sun" of the American heaven, and he thinks that in American agriculture, "there seems to be an arrest of development."<sup>14</sup> But a German writer, not less observant, works out a coefficient of welfare higher for the United States than for Germany on the basis of the fact that while in Germany 43.3 per cent of the gainfully employed are required to feed its population, in the United States 29 per cent suffices to perform the same service. The agricultural production per man in the United States, he states, is 2.46 times greater than in Germany. Not counting tractors and other agricultural machinery which have brought such an accession of power and wealth-production to the American farmer, in the item of horses alone he finds the number per agriculturist in the United States to be 3.7 times that of Germany. To him, agricultural America seems "a blessed country."<sup>15</sup>

It is needless to enlarge on the numerous clashes in the testimony of the foreign observers. It is more to the point to indicate that, despite their varying origins and predilections, there is a considerable degree of concurrence, although with differing emphasis, regarding certain main factors in the recent economic and social experience of this country. These factors may here be briefly summarized.

1. The natural resources of the United States are unrivaled, especially those which are fundamental to modern large-scale industrialism. There is not only a continental width of fertile land, but there exist also marvelous deposits of coal, petroleum, iron and other essential minerals. The more critical of the foreign visitors are inclined to stress these bountiful gifts of nature, others weight more

heavily the energy and organization which has utilized them.<sup>16</sup>

2. In this vast expanse of territory, historically so recently opened to European migration and settlement, labor is relatively scarce and wages are relatively high. The situation may be tersely stated, that "because American resources are abundant, they are wasted; because American labor is dear, it is economized."<sup>17</sup> In the present undeveloped state of international wage statistics, it is natural that estimates of the higher range of American wages should vary. André Siegfried, in his somewhat impressionistic manner, says they are "often ten times as much as those of even a European,"<sup>18</sup> while the more conservative German trade-unionists put the American wage level at about three times that of Germany and real wages two and a half times as high. But the European writers agree that there is in the United States a markedly higher standard of living and that this profoundly influences the American outlook.<sup>19</sup>

3. In consequence of the juxtaposition of rich resources and an inadequate labor supply, there has resulted a progressive development of labor-supplementing machine equipment, in agriculture, transportation and industry, and also a remarkable utilization of power. To some, this seems to be the chief explanation of the greater productivity of the American wage earner and hence of his higher standard of living.<sup>20</sup>

4. Many observers hold that of even greater importance than the technical progress is the great domestic market, untrammelled by barriers of tariffs, language, or tradition of local or national jealousies. The resulting "mass consumption" makes mass production possible and profitable.

<sup>16</sup> I quote once more from Ramsay Muir (*op. cit.*, p. 2): Once these resources were developed "by means of man-power drawn from Europe and capital largely drawn from England, nothing could prevent America from becoming the most prosperous country in the world . . . This is the main, and the abiding, cause of American prosperity. It cannot be imitated." Julius Hirsch (*op. cit.*, p. 27), does not hesitate to make a numerical ratio between the factors of nature and organization. He ascribes about two-fifths of the greater American productivity to natural resources and three-fifths to higher efficiency.

<sup>17</sup> L. Chiozza Money, *L'Europe Nouvelle*, 1926, Vol. 9, p. 1528.

<sup>18</sup> André Siegfried, *America Comes of Age*, 1927, p. 160.

<sup>19</sup> *Ibid.*, p. 154. Siegfried asserts that the "enormously higher" standard of living in the United States is "now the chief contrast between the old and new continents."

<sup>20</sup> Cf. *The Economist* (London), Vol. 106, p. 522.

<sup>12</sup> Julius Hirsch, *Das Amerikanische Wirtschaftswunder*, 1926, p. 229.

<sup>13</sup> Carl Kötting, *op. cit.*, p. 56.

<sup>14</sup> Ramsay Muir, *op. cit.*, pp. 16-19.

<sup>15</sup> Carl Kötting, *op. cit.*, pp. 9-15.

The nation-wide market necessitates expanding agencies of distribution which are highly remunerative to their originators and which absorb a growing proportion of the gainfully employed.<sup>21</sup> The character of the unified American market frequently leads to foreign comment on its surprising uniformity of demand. The American business man, according to a French point of view, "has standardized the individual in order to be better able to standardize manufacture."<sup>22</sup>

5. The problem of correlating abundant resources, expensive labor, and unsurpassed machine equipment, to serve the greatest of markets, has put a high premium on management and organizing capacity. Scientific management in industry and commerce, apparently the resultant of emerging pressures, is thought by many of the foreigners writing on recent economic changes in the United States to be the chief contribution which this country is making to economic welfare and to be the key to its success. It is seen that the American effort is aimed at the "optimum" result, the proper balance of all the many factors in a business enterprise.<sup>23</sup> The preoccupation of the old-time manager with wages has given way to a concern for the manifold elements entering into unit costs. Such far-sighted management is becoming highly specialized; a new profession is entering into the structure of American industry.

6. In order to obtain the effective utilization of the worker's effort and to lower costs, American management has begun more systematically to improve industrial relations. It seeks to reduce the turnover of labor and the friction of labor troubles which disturb the smooth-running mechanism of industry. In a number of the larger concerns departments have been established to study and to deal with this problem, and this new specialization of personnel management has attracted favorable foreign attention. Some observers regard "the achievement of industrial peace between labor,

capital and management"<sup>24</sup> as among the leading causes of American prosperity. But even those who speak in cooler tone agree that a great improvement in industrial relations has been effected. It is generally recognized that there has been a voluntary assumption by employers of heavy social charges in the establishment of benefits of various kinds, and there has continued since the war a considerable interest in plans for workers' representation.<sup>25</sup> A corresponding shift in the labor-union attitude has also taken place which differentiates the American labor movement from that found in any other country. The new labor-union policy recognizes not the identity but the mutuality of interest between the two parties to the labor contract. This approach to better understanding on both sides is itself a sign of general change in the temper of the industrial community. The human aspects of the relationships of management not only with labor, but also with customers, competitors, and the public, are more stressed in word and in practice. There is a growing sense of social responsibility.

7. A related factor in American economic efficiency is the openmindedness of American management. Many visitors note with appreciation the freedom of access and information which they have found.<sup>26</sup> "What is raising the whole standard of management in the United States is the habit among employers of discussing their problems openly among themselves, of comparing the methods of one industry with those of another, and of founding associations for research and conference . . . They are not afraid to teach each other or too proud to learn from each other."<sup>27</sup> They are giving increasing support to scientific research and looking with respect upon university training.

8. Emphasis is unanimously laid upon the dominant national trait of optimistic energy, as an underlying element in these various phenomena of American economic activity. The individual in America is mobile as to place and calling; he is moving upward.<sup>28</sup> He sometimes appears docile,

<sup>21</sup> The German trade-unionists remark that advertising, the appropriate tool for modern salesmanship in a wide market, is everywhere, in England, France, Germany and the United States, from 2 per cent to 5 per cent of the total cost of production. The larger absolute amount thus expended in the United States is due merely to the greater size of the market. But the size and uniformity of this market has led in the United States to more highly developed sales policies. (*Amerikareise*, p. 66.)

<sup>22</sup> Pichot and Fournier, "Communication sur le voyage aux États-Unis," *Bulletin de la Chambre de Commerce de Paris*, July 7, 1928.

<sup>23</sup> See especially the remarks of the German trade unionists, *Amerikareise*, p. 49.

<sup>24</sup> P. A. Molteno, "The Causes and Extent of American Prosperity," *Contemporary Review*, August, 1927.

<sup>25</sup> One of the best studies of the subject is H. B. Butler's report on *Industrial Relations in the United States*, International Labor Office, 1927.

<sup>26</sup> See, for instance, A. Detoeuf, "Les conditions de production américaine," *Revue politique et parlementaire*, Vol. 128; Carl Köttgen, *op. cit.*, p. iv.

<sup>27</sup> "American Industry and its Significance," *Round Table* (London), 1926, Vol. 17, pp. 264.

<sup>28</sup> On this point, note especially the testimony of the German trade-union report, which was based upon contact with American workers. *Amerikareise*, p. 95ff.

but it is because he is tolerant of social inconveniences which his experience tells him are only incidental and temporary. The way to education and to promotion is wide open; indeed many ladders to advancement are available and their rungs are all intact, so that he may climb who will. We are told that this is the inheritance of the frontier; in spite of the fact that the agricultural frontier has disappeared, our visitors find still strongly persistent the same characteristic spirit of indomitable hopefulness. . . .

And so, when we look back over a century of our own economic history for analogous periods of fairly continuous advance, without too minute regard for the fluctuations of the business cycles, we find certain groups of years which have points of likeness, and also of unlikeness, to the experience of the United States since 1922. There have been four previous periods of efflorescence. These correspond approximately to increases in contemporaneous economic activity in Western Europe. The first of the four periods of marked acceleration set in about 1825, with the recovery from the great fall of prices which followed the end of the Napoleonic wars, and, although there was one sharp break in 1834, this period of activity culminated in the boom of 1836. Then came the prostrating panic of 1837, the western crisis of 1839, and years of depression. Again, from about 1849 to the panic of 1857, broken by a mild recession in 1854, there were successive years of unprecedented prosperity. Immediately after the Civil War there was a time of hectic prosperity and great speculative activity, but with too many disturbing factors to rank the stretch from 1865 to 1879 among the notable periods. But from 1879, through the "fat eighties," though with recessions, to 1893, we may find a third remarkable forward movement. From 1898 to the crisis of 1907 there was a fourth long run of prosperity. In this case, the period of severe depression following the crisis was remarkably brief, and the country had several years of undramatic fluctuations before the curtain rose for the tragedy of the Great War.

Two of these four major periods, the second and fourth, were accompanied by new gold discoveries and rising price trends; during the first period, from 1825 to 1837, prices were gradually falling, and the third, from 1879 to 1893, experienced a marked and steady drop in prices. All of them show remarkable advances in the exploitation of the national resources, notably land occupation in the first three periods; in the last three, coal, iron and petroleum production at an accelerating rate in a world comparison, gold and silver

production at a diminishing rate; in the last two periods the other mineral resources, copper leading, come into greater prominence. With each forward surge the demand for labor has grown and immigration has responded. Despite a migration of colossal proportions, such as the world had never known, the demand for labor was nevertheless maintained. Each period saw an increase in real wages, though more lagging and less pronounced than that which we have recently witnessed. All four periods contributed notable inventions and methods for economizing and supplementing human labor. With developing pressure there was a difference in the main direction of technological advance, earlier toward transportation and horse-driven agricultural machinery, later toward industrial equipment and a great extension in the mastery and use of power. The steady growth of the vast domestic market led in each period to inevitable changes in marketing and credit organization; the "orthodox" system of distribution, with its wholesaler, local jobber, and retailer, was clearly under strain in the second period and beginning to break in the third, while new forms and relationships were being established. Each phase of activity is marked by development of the banking system to meet the demands of rapidly growing industry and commerce; and each concluding phase of crisis, 1837-1839, 1857-1860, 1893-1896, 1907, gave the impulse to banking and monetary reforms. The pressure of expanding markets and of technological opportunity was necessitating even more conspicuous transformations in factory organization and in magnitude of enterprise. These changes, with the exploitation of natural resources on an ever-enlarging scale, called into being successive groups of business leaders, often, at each first break into new fields of opportunity, sharp and unscrupulous, ruthless and daring. Beside the great merchants of the earlier period there swarmed the new growth which Charles Dickens pilloried, but out of their ranks came the outstanding personalities, organizers of industry and finance, the railroad and lumber "barons," the steel "kings," the meat-packing and oil magnates of the third period, and the leadership, more sobered by power and responsibility, of the fourth. Finally, throughout all the four great waves of advance, and even in the troughs between, there has always been felt that upward movement of forceful energy, of optimistic ambition, which our foreign observers have so constantly noted.

So rapid a sketch does but faint justice to the many and complicated aspects of our economic development, and it can only indicate the answer,

if answer be at all possible, to the question of similarity between our present phase and those preceding it. Fuller studies, both qualitative and quantitative not only of business cycles but of longer trends, are required, and there is reason to believe that the interest which these studies are exciting will result in more exact knowledge even of earlier periods where the source material is relatively scanty. But it will serve our present purpose to point out that most of the eight significant features of the existing economic conditions in the United States upon which we have found our foreign visitors in substantial agreement are also characteristic of former major periods of prosperity in our history. The fundamental conditions of our existence on this continent have thus far remained substantially unchanged, and the responses have therefore been similar, not so much in external form as in their essential character. Even the successive maladjustments of economic growth show, behind their external dissimilarities, an underlying likeness. With superabundant natural resources, for example, we have always been open to the charge of wastefulness, and this is easily explicable, but with insufficient man power it seems, at first thought, curious that we are now and have ever been wasteful of human life. That we should permit the rate of accident and crime to remain so much higher than in other civilized nations may spring from the reckless forcefulness with which we have attacked the difficulties of expansion. But there was a sign of change in the fundamental conditions of our national life when there emerged the conservation movement for the natural resources, and the slogan "safety first" for human life. Another serious maladjustment has been constantly observable in the extreme to which we have carried the swings of prosperity and business depression, the fierce bursts of speculative activity and the sharp reactions. Again, our environment and its needs may help to explain this feverish pulse-beat; yet here also another slogan, "stability," may be symptomatic of coming fundamental change. It is, furthermore, highly characteristic of all our periods of expansion that the rapidity and vigor of growth of some elements is so great as seriously to unbalance the whole organism. Each previous phase of prosperity has had its flourishing "new" industries, a different group each time, and each period has seen, or failed to see, other suffering members seeking readjustment or reduced to atrophy. With each successive advance, for instance, there has remained a farm problem and agrarian discontent somewhere in the rear. These rough dislocations in

the past have made us exceptionally prone to scrap machinery and men. But quick adaptation and rapid mutation, perhaps biologically useful, our industrial society is now commencing to regard with more social concern.

The shiftings of psychological attitude, here indicated, seems to suggest that something distinctly different from our former experience is taking place. The chief characteristics of the present economic phase, agreed upon by our numerous visitors from abroad, are, it is true, evolved logically from what has preceded, and we are still finding answers along similar lines to a similarly constructed problem. But there seem now to be differences of degree which approach differences in kind. In this sense we may say that the unprecedented utilization of power and its wide dispersion by automobile and tractor, in which this country leads the way, is a new addition of enormous potentiality to our resources. With the general increase of wealth, the growth in the number of millionaires has been accompanied by a remarkable rise in the real wages of industrial workers, and a wide diffusion of investments. The profession of management is clearly emerging, and there is visible an increasing professional spirit in business, which springs from and entails recognized social responsibilities. The "self-policing" of business, with its codes of ethics, has been assisted by the recent development of trade-associations and the increasing influence of research and professional education. The strength and stability of our financial structure, both governmental and commercial, is of modern growth. The great corporate development of business enterprise, well marked in the fourth period of expansion, has gone on to new heights. It may be creating, as some think, a new type of social organization, but in any case the open-mindedness of the public, and of the state which is its instrument, toward this growing power of business corporations appears to be novel in American history.

Here are the beginnings of new answers to the old problem. But more than this. Some of the basic elements of the problem are evidently in process of change. The resources of the country, still enormous, are no longer regarded as limitless; the labor of the world is no longer invited freely to exploit them. The capital flow has turned outward; private and public interests and responsibilities have a new world-wide scope. These changes must have far-reaching consequences and entail further and more perplexing adjustments. . . .

## ROBERT S. LYND AND HELEN M. LYND

AS THE DETACHED OBSERVER of his own time, the "Persian" or "Chinese traveler" of the eighteenth century has been succeeded by the cultural anthropologist. One of the great examples of this form of analysis is *Middletown*, the work of Robert S. Lynd (1892- ) of Columbia University and his wife, Helen M. Lynd (1896- ), of Sarah Lawrence College. The Lynds proceed by regarding an American city as they might a primitive community. How do these people get their living? mate and rear their young? spend their leisure? conduct their religious and associational life? Since an American city is being studied, change is of the essence. Therefore, all these factors must be considered in relation to the city's behavior a generation earlier.

A city in the 25-50,000 population range, with 95 percent of its inhabitants of American origin, was chosen by the Lynds for their inquiry. The city lay in Midwestern America, was the seat of glass and metal works, and depended on outside areas for both raw materials and markets. In 1895, industry had first appeared significantly in Middletown, a community long settled as a country town. Since then, Middletown has become completely subject to the money economy. Social position and social aim are both conditioned by money, which has come to be an impersonal measure of personal worth. This "extraneous" factor dictates the amount of room a family shall have for living, the education of its children, the recreations it enjoys, the beliefs it maintains and even its awareness of belonging to or being alien from the world in which it lives.

The Lynds find that people marry earlier than they did in the nineties, for the relative disappearance of the skilled mechanic makes a youth's earnings equal to a man's. On the other hand, the demands of the machine diminish the demand for workers over forty. Mating remains a matter of "romance," guided by parental conviction that it is as easy to fall in love

with the boss's daughter as with his stenographer; and sex separation in society after marriage is almost as rigid in Middletown as in Polynesia. Child-rearing is a female occupation whether in the home or in institutionalized school life: the father provides money and discipline, mother and teacher everything else. Education is a Middletown fetish, not for its content but because it focuses the hope of one group and the sentiment of the other. The Middletown high-school basketball team is regarded with complete seriousness by Middletown's business-class elders; the high school is the center of social life to the young and, to parents of the working class, it represents the gateway of opportunity.

Middletown's adults spend their leisure passively for the most part: they listen to speakers, whom they don't heckle; they read—that is, the women do; they go to the movies or are spectators at sports events. More actively, Middletown adults drive cars and tinker with them; build radios—the radio was still an outlet for craftsmanship in the middle nineteen twenties; play cards, and dance. Casual social contact has all but disappeared. From childhood, social life proceeds on a pair basis; the group friendships of the nineties are gone. Indeed, friendship in general is on the decline. Businessmen have Rotary and similar organizations to give them a sense of "belonging," but the virtual disappearance of the trade unions has closed that satisfaction to the workingman.

In religion, Middletown proves the truth of Tocqueville's misgivings about the power of public opinion in a democracy. All demonstration of loss of faith has disappeared before an indifferent conformity molded, particularly among the business class, by concern for "what people will say." Middletown churches are divided not by doctrine but by economic and social factors. Middletown ministers are so harried by their duties that the old concept of a "learned ministry" no longer exists. In public

esteem, ministers rank with others who train the young and so are not considered fit company for adult men in their hours of leisure. Yet Middletown believes in the mission of Christianity, the literal truth of the Bible, the divinity of Christ, and the reality of Christian eschatology. The hope of Heaven has genuine emotional value for working-class women; women of the business group are more conforming but less fervent. To the man of the business class, Middletown is a vital entity, though he allows it to be corruptly governed. As a community, Middletown is marked by deep social cleavages; its Negroes are segregated; Jews and foreigners are unwelcome; and the business and working classes are hostile to each other.

The Lynds draw no general conclusions from their accumulation of data, except to point out, in every connection, on what a be-

wildering variety of levels the community contrives to live. From the five hundred odd pages of *Middletown*, emerges the picture of an energetic community, almost wholly inactive on the personal, artistic, and intellectual levels, technically competent and unaware of the social implications of its competence. It moves in an aura of pressures; reads newspapers and magazines owned outside the community; is won by movements like the Klan; and votes Republican because it knows on which side its bread is buttered. The movies swell the demand for luxury; the high school shows the adolescent how money makes the mare go; the automobile divides the family on one hand and unites it on the other. Thus the middle-class America of the nineteen twenties.

The selection here reprinted is from *Middletown* (New York, 1927) and is published by permission of Harcourt, Brace and Company.

### *Middletown*

BY ROBERT S. LYND AND HELEN M. LYND

#### CHAPTER VIII: WHY DO THEY WORK SO HARD?

ONE EMERGES from the offices, stores, and factories of Middletown asking in some bewilderment why all the able-bodied men and many of the women devote their best energies for long hours day after day to this driving activity seemingly so foreign to many of the most powerful impulses of human beings. Is all this expenditure of energy necessary to secure food, clothing, shelter, and other things essential to existence? If not, precisely what over and beyond these subsistence necessities is Middletown getting out of its work?

For very many of those who get the living for Middletown the amount of robust satisfaction they derive from the actual performance of their specific jobs seems, at best, to be slight. Among the business men the kudos accruing to the eminent in getting a living and to some of their minor associates yields a kind of incidental satisfaction; the successful manufacturer even tends today to supplant in local prestige and authority the judge, preacher, and "professor" of thirty-five to forty years ago. But for the working class both any satisfactions inherent in the actual daily doing of the job and the prestige and kudos of the able

worker among his associates would appear to be declining.

The demand of the iron man for swiftness and endurance rather than training and skill have led to the gradual abandonment of the apprentice-master craftsman system; one of the chief characteristics of Middletown life in the nineties, this system is now virtually a thing of the past. The master mechanic was the aristocrat among workmen of 1890—"one of the noblest of God's creatures," as one of them put it. But even in the nineties machinery was beginning to undermine the monopolistic status of his skill; he was beginning to feel the ground shifting under his feet. The State Statistician recorded uneasy protests of men from all over the State. Today all that is left of the four-year apprentice system among 9,000 workers in the manufacturing and mechanical industries is three or four score apprentices scattered through the building and molding trades. "It's 'high speed steel' and specialization and Ford cars that's hit the machinist's union," according to a skilled Middletown worker. "You had to know how to use the old carbon steel to keep it from gettin' hot and spoilin' the edge. But this high speed steel and this new 'stelite' don't absorb the heat and are harder than carbon steel. You can take a

boy fresh from the farm and in three days he can manage a machine as well as I can, and I've been at it twenty-seven years."

With the passing of apprenticeship the line between skilled and unskilled worker has become so blurred as to be in some shops almost non-existent. The superintendent of a leading Middletown machine shop says, "Seventy-five per cent. of our force of 800 men can be taken from farm or high school and trained in a week's time." In the glass plant whose shift in processes is noted in Chapter VI, 84 per cent. of the tool-using personnel, exclusive of foremen, require one month or less of training, another 4 per cent. not more than six months, 6 per cent. a year, and the remaining 6 per cent. three years. Foundry workers have not lost to the iron man as heavily as machinists, but even here the trend is marked. In Middletown's leading foundry in the early nineties, 47 per cent. of the workers (including foremen) had three to six years' training. This trained group today is half as great (24 per cent.) and 60 per cent. of all the castings produced are made by a group of newcomers who cast with the help of machines and require only a fortnight or so of training. . . .

The shift from a system in which length of service, craftsmanship, and authority in the shop and social prestige among one's peers tended to go together to one which, in the main, demands little of a worker's personality save rapid, habitual reactions and an ability to submerge himself in the performance of a few routinized easily learned movements seems to have wiped out many of the satisfactions that formerly accompanied the job. Middletown's shops are full of men of whom it may be said that "there isn't 25 per cent. of them paying attention to the job." And as they leave the shop in the evening, "The work of a modern machine-tender leaves nothing tangible at the end of the day's work to which he can point with pride and say, 'I did that—it is the result of my own skill and my own effort.'"

The intangible income accruing to many of the business group derives in part from such new devices as membership in Rotary and other civic clubs, the Chamber of Commerce, Business and Professional Women's Club, and the various professional clubs. But among the working class not only have no such new groups arisen to reward and bolster their work, but the once powerful trade unions have for the most part either disappeared or persist in attenuated form.

By the early nineties Middletown had become "one of the best organized cities in the United States." By 1897, thirty "locals" totaling 3,766 members were affiliated with the A. F. of L. and

the city vied with Detroit and other cities as a labor convention city. In 1899 the first chapter of a national women's organization, the Women's Union Labor League, was launched in Middletown. At this time organized labor formed one of the most active coördinating centers in the lives of some thousands of Middletown working class families, touching their getting-a-living, educational, leisure-time, and even in a few cases religious activities. On the getting-a-living sector the unions brought tangible pressure for a weekly pay law, standardized wage scales, factory inspection, safety devices and other things regarded as improvements, and helped in sickness or death, while crowded mass meetings held in the opera house collected large sums for the striking workers in Homestead and elsewhere. A special Workingmen's Library and Reading Room, with a paid librarian and a wide assortment of books, was much frequented. Undoubtedly the religious element in the labor movement of this day was missed by many, but a Middletown old-timer still refers enthusiastically to the Knights of Labor as a "grand organization" with a "fine ritual," and a member of both iron and glass unions during the nineties is emphatic regarding the greater importance of the ceremonial aspects of the unions in those days, particularly when new members were received, as compared with the bald meetings of today. As centers of leisure time the unions ranked among the important social factors in the lives of a large number of workers. . . .

Labor Day, a great day in the nineties, is today barely noticed.

From the end of the nineties such laconic reports as "Strike defeated by use of machinery" mark increasingly the failing status of organized labor in Middletown. According to the secretary of one national union, "the organized labor movement in [Middletown] does not compare with that of 1890 as one to one hundred." The city's civic clubs boast of its being an "open shop town."

The social function of the union has disappeared in this day of movies and automobile, save for sparsely attended dances at Labor Hall. The strong molders' union, e.g., has to compel attendance at its meetings by making attendance at one or the other of the two monthly meetings compulsory under a penalty of a dollar fine. There is no longer a Workingmen's Library or any other educational activity. Multiple lodge memberships, occasional factory "mutual welfare associations," the diffusion of the habit of carrying life insurance, socialized provision of workmen's compensation, and the beginning of the practice in at least three factories of carrying group life-insurance



for all workers, are slowly taking over the insurance function performed by the trade unions. Of the 100 working class families for whom income distribution was secured, only eleven contributed anything to the support of labor unions; amounts contributed ranged from \$18.00 to \$60.00.

Likewise, public opinion is no longer with organized labor. In the earlier period a prominent Middletown lawyer and the superintendent of schools addressed an open meeting of the Knights of Labor, and the local press commended the "success of the meeting of this flourishing order." When Samuel Gompers came to town in ninety-seven he was dined in the mayor's home before addressing the great crowd at the opera house. The press carried daily items agitating for stricter local enforcement of the weekly pay law, or urging public support of union solicitations for funds for union purposes, or calling speeches at labor mass-meetings "very able and enjoyable addresses." The proceedings of the Glass Workers' Convention in Baltimore in 1890 were reported in full on the first page. Such a note as this was common: "During the last few months there have been organized in this city several trade organizations and labor unions . . . and much good has resulted therefrom." At a grand Farmers and Knights of Labor picnic in 1890, "a perfect jam, notwithstanding the rain," the speaker "ably denounced trusts, Standard Oil, etc.," according to the leading paper. The largest men's clothing firm presented a union with a silk parade-banner costing nearly \$100. Today the Middletown press has little that is good to say of organized labor. The pulpit avoids such subjects, particularly in the churches of the business class, and when it speaks it is apt to do so in guarded, equivocal terms. A prevalent attitude among the business class appears in the statement of one of the city's leaders, "Working men don't need unions nowadays. There are no great evils or problems now as there were fifty years ago. We are much more in danger of coddling the working men than abusing them. Working people are just as well off now as they can possibly be except for things which are in the nature of industry and cannot be helped." . . .

For both working and business class no other accompaniment of getting a living approaches in importance the money received for their work. It is more this future, instrumental aspect of work, rather than the intrinsic satisfactions involved, that keeps Middletown working so hard as more and more of the activities of living are coming to be strained through the bars of the dollar sign. Among the business group, such things as one's circle of friends, the kind of car one drives, play-

ing golf, joining Rotary, the church to which one belongs, one's political principles, the social position of one's wife apparently tend to be scrutinized somewhat more than formerly in Middletown for their instrumental bearing upon the main business of getting a living, while, conversely, one's status in these various other activities tends to be much influenced by one's financial position. As vicinage has decreased in its influence upon the ordinary social contacts of this group, there appears to be a constantly closer relation between the solitary factor of financial status and one's social status. A leading citizen presented this matter in a nutshell to a member of the research staff in discussing the almost universal local custom of "placing" new-comers in terms of where they live, how they live, the kind of car they drive, and similar externals: "It's perfectly natural. You see, they know money, and they don't know you."

This dominance of the dollar appears in the apparently growing tendency among younger working class men to swap a problematic future for immediate "big money." Foremen complain that Middletown boys entering the shops today are increasingly less interested in being moved from job to job until they have become all-round skilled workers, but want to stay on one machine and run up their production so that they may quickly reach a maximum wage scale.<sup>1</sup>

The rise of large-scale advertising, popular magazines, movies, radio, and other channels of increased cultural diffusion from without are rapidly changing habits of thought as to what things are essential to living and multiplying optional occasions for spending money.<sup>2</sup> Installment buy-

<sup>1</sup> According to one veteran foundry foreman: "In the old days of the nineties a boy was shaped and trained by his foreman. When he started his apprenticeship for the molder's trade he was lucky to make \$3 or \$4 a week. At the end of the first year he was making, maybe, a dollar or \$1.25 a day; at the end of the second year perhaps \$1.50 or \$2.00; the third year, \$2.25; and then at the end of the fourth year he received his card and \$2.75 a day. Meanwhile his foreman had shifted him about from job to job until, when he became a molder and went on a piece-work basis, he knew his job from every angle and could make big money. But the trouble nowadays is that within a year a machine molder may be making as much as a man who has been there fifteen or twenty years. He has his eyes on the money—\$40 to \$50 a week—and resists the foreman's efforts to put him on bench molding where he would learn the fine points of the molder's trade."

<sup>2</sup> It is perhaps impossible to overestimate the rôle of motion pictures, advertising, and other forms of publicity in this rise in subjective standards. Week after week at the movies people in all walks of life enter,



ing, which turns wishes into horses overnight, and the heavy increase in the number of children receiving higher education, with its occasions for breaking with home traditions, are facilitating this rise to new standards of living. In 1890 Middletown appears to have lived on a series of plateaus as regards standard of living; old citizens say there was more contentment with relative arrival; it was a common thing to hear a remark that so and so "is pretty good for people in our circumstances." Today the edges of the plateaus have been shaved off, and every one lives on a slope from any point of which desirable things belonging to people all the way to the top are in view.

This diffusion of new urgent occasions for spending money in every sector of living is exhibited by such new tools and services commonly used in Middletown today, but either unknown or little used in the nineties, as the following:

*In the home*—furnace, running hot and cold water, modern sanitation, electric appliances ranging from toasters to washing machines, telephone, refrigeration, green vegetables and fresh fruit all the year round, greater variety of clothing, silk hose and underwear, commercial pressing and cleaning of clothes,<sup>3</sup> commercial laundering or use of expensive electrical equipment in the home,<sup>4</sup> cos-

often with an intensity of emotion that is apparently one of the most potent means of reconditioning habits, into the intimacies of Fifth Avenue drawing rooms and English country houses, watching the habitual activities of a different cultural level. The growth of popular magazines and national advertising involves the utilization through the printed page of the most powerful stimuli to action. In place of the relatively mild, scattered, something-for-nothing, sample-free, I-tell-you-this-is-a-good-article copy seen in Middletown a generation ago, advertising is concentrating increasingly upon a type of copy aiming to make the reader emotionally uneasy, to bludgeon him with the fact that decent people don't live the way *he* does: *decent* people ride on balloon tires, have a second bathroom, and so on. This copy points an accusing finger at the stenographer as she reads her *Motion Picture Magazine* and makes her acutely conscious of her unpolished finger nails, or of the worn place in the living room rug, and sends the housewife peering anxiously into the mirror to see if *her* wrinkles look like those that made Mrs. X—in the ad. "old at thirty-five" because she did not have a Leisure Hour electric washer. . . .

<sup>3</sup> In the Middletown city directory for 1889 there were no dry cleaners and only one dye house. Today a city less than four times the size has twelve dry cleaners and four dye houses. The habit of pressing trousers is said not to have "come in" until about 1895.

<sup>4</sup> The hand-washers of 1890 sold for \$7.50–\$10.00, while the modern machines cost \$60.00 to \$200.00.

metics, manicuring, and commercial hair-dressing.

*In spending leisure time*—movies (attendance far more frequent than at earlier occasional "shows"), automobile (gas, tires, depreciation, cost of trips), phonograph, radio, more elaborate children's playthings, more club dues for more members of the family, Y.M.C.A. and Y.W.C.A., more formal dances and banquets, including a highly competitive series of "smartly appointed affairs" by high school clubs;<sup>5</sup> cigarette smoking and expensive cigars.

*In education*—high school and college (involving longer dependence of children), many new incidental costs such as entrance to constant school athletic contests.

In the face of these rapidly multiplying accessories to living, the "social problem" of "the high cost of living" is apparently envisaged by most people in Middletown as soluble if they can only inch themselves up a notch higher in the amount of money received for their work. Under these circumstances, why shouldn't money be important to people in Middletown? . . .

Money being, then, so crucial, how much money do Middletown people actually receive? The minimum cost of living for a "standard family of five" in Middletown in 1924 was \$1,920.87. A complete distribution of the earnings of Middletown is not available. Twelve to 15 per cent. of those getting the city's living reported a large enough income for 1923 to make the filing of a Federal income tax return necessary. Of the 16,000–17,000 people gainfully employed in 1923—including, however, somewhere in the neighborhood of a thousand married women, some of whom undoubtedly made joint returns with their husbands—210 reported net incomes (i.e., minus interest, contributions, etc.) of \$5,000 or over, 999 more net incomes less than \$5,000 but large enough to be taxable after subtracting allowed exemptions (\$1,000 if single, \$2,500 if married, and \$400 per dependent), while 1,036 more filed returns but were not taxable after subtracting allowed deductions and exemptions. The other 85–88 per cent. of those earning the city's living presumably received either less than \$1,000 if single or less than \$2,000 if married, or failed to make income tax returns. . . .

<sup>5</sup> A dance no longer costs \$0.50, as in the nineties, but the members of clubs are assessed about \$4.00 for their Christmas dances today. Music used to be a two- or three-piece affair, but now it is an imported orchestra costing from \$150 to \$300. A boy has to take a girl in a taxi if he does not have the use of the family car. One does not go home after a dance but spends a dollar or so on "eats" afterwards. Expensive favors are given at annual sorority banquets.

A detailed calculation of a cost of living index for Middletown in 1924 on the basis of the cost of living in 1891 reveals an increase of 117 per cent. A comparison of the average yearly earnings of the 100 heads of families in 1924 with available figures for 439 glass, wood, and iron and steel workers in Middletown in 1891 reveals an average of \$1,469.61 in the former case and \$505.65 in the latter, or an increase of 191 per cent. today.<sup>6</sup> Or if we take the earnings of school teachers as an index, probably conservative, of the trend in earnings, as against this rise of 117 per cent. in the cost of living, it appears that the minimum salary paid to grade school teachers has risen 143 per cent. and the maximum 159 per cent., and the minimum salary paid to high school teachers 134 per cent. and the maximum 250 per cent. The median salary for grade school teachers in 1924 was \$1,331.25, with the first and third quartiles at \$983.66 and \$1,368.00 respectively. The median salary for high school teachers was \$1,575.00, with the first and third quartiles at \$1,449.43 and \$1,705.50 respectively. Substantial increases in the incomes of persons in certain other representative occupations are suggested by the fact that the salary of a bank teller has mounted from \$50.00 or \$65.00 a month in 1890 to \$166.67 a month in 1924, that of an average

male clerk in a leading men's clothing store from \$12.00 a week in 1890 to \$35.00 today; a doctor's fee for a normal delivery with the same amount of accompanying care in both periods has risen from \$10.00 to \$35.00, and for a house call from \$1.00 to \$3.00.

Thus this crucial activity of spending one's best energies year in and year out in doing things remote from the immediate concerns of living eventuates apparently in the ability to buy somewhat more than formerly, but both business men and working men seem to be running for dear life in this business of making the money they earn keep pace with the even more rapid growth of their subjective wants. A Rip Van Winkle who fell asleep in the Middletown of 1885 to awake today would marvel at the change as did the French economist Say when he revisited England at the close of the Napoleonic Wars; every one seemed to run intent upon his own business as though fearing to stop lest those behind trample him down. In the quiet county-seat of the middle eighties men lived relatively close to the earth and its products. In less than four decades, business class and working class, bosses and bossed, have been caught up by Industry, this new trait in the city's culture that is shaping the pattern of the whole of living. According to its needs, large numbers of people anxious to get their living are periodically stopped by the recurrent phenomenon of "bad times" when the machines stop running, workers are "laid off" by the hundreds, salesmen sell less, bankers call in loans, "credit freezes," and many Middletown families may take their children from school, move into cheaper homes, cut down on food, and do without many of the countless things they desire.

<sup>6</sup> The 1891 earnings are taken from the *Fourth Biennial Report* for the state in which Middletown is located, dated 1891-2, pp. 57, 130, and 317. This Report gives the average income of 225 Middletown adult male glass workers as \$519.49, of sixty-nine wood workers as \$432.32, and of 145 iron and steel workers as \$519.06—or an average for the entire 439 of \$505.65. Too much weight obviously cannot be put upon these 1891 figures, as nothing is known either as to the method of their collection or as to their accuracy.

## ANDRÉ SIEGFRIED

NOT QUITE a full century after Tocqueville had made his appraisal of American democracy in its youth, another Frenchman undertook to survey a United States grown mature. Like Tocqueville, André Siegfried (1875- ) is amazed, and like him he is afraid for Europe's future. Again, the United States has brought something new into the world and once more Europeans stand in worried fascination before it. This later portent is not fundamentally new, however, but rather an outgrowth of forces latent even in Andrew Jackson's America.

Siegfried offers an interesting footnote to many of Tocqueville's observations, particularly as those concern the prospects for liberty in the United States. But where Tocqueville wonders whether liberty can survive democracy, Siegfried wonders whether liberty can endure mass production; for him the threat to freedom lies on the conveyor belt, not in the ballot box.

Siegfried, Alsatian by birth and an economist by profession, had visited the United States frequently before he wrote *America Comes of Age*. He spent the six months before drafting

the book in traveling through the country, not lecturing but listening to Americans. Out of those conversations and excursions, he drew some rather superficial economic and political observations: mass production requires a continental market and so cannot be practiced in France; the Republican party enlists the rich, the rural, and the aggressively respectable, save in South; while the Democrats are dependent on the uncertain turn of events for their votes.

When Siegfried turns to the cultural scene, he is more illuminating, for he speaks as a cultivated continental European. He is aware of the cross-currents of religion and the national tradition which he chooses to label "race." The old Anglo-Saxon Protestant America is feeling the pressure of the polyglot Catholics in her cities. The Ku Klux Klan and Prohibition both may be taken as responses to that stimulus. It has also produced immigration restriction and the odd phenomenon of a democracy in which large numbers have the vote and yet are, in effect, second-class citizens.

Standardized mass production stifles personal development in America; the United States produces things, not people. It is nonsense to assert that the worker, who is subject to the discipline of the machine during working hours, can be creative in his leisure. Profits overshadow liberty of action, as the machine's requirements overshadow those of its servants, and so Americans conform not only to the patterns of economic behavior but also to the resultant patterns of social behavior.

Thus, the individualist Latin—who can be bound by no social unit but the family—confronted by the enormous molding force of the American way of life. It is an ironical fact that within a decade and a half much of the peculiarly independent Latin soul, as exemplified in the political leadership of the Latin nations of Europe, had demonstrated its freedom by embracing fascism or succumbing to it.

The selection here reprinted is from *America Comes of Age* (New York, 1927) and is published by permission of Harcourt, Brace and Company.

## *America Comes of Age*

BY ANDRÉ SIEGFRIED

### CHAPTER IX: THE KU KLUX KLAN

THE Ku Klux Klan is one of those manifestations which rage for a while and then die down and disappear. No one takes them seriously when the crisis is over, but they seem very tragic at the time. Nevertheless they reveal a latent source of trouble which may remain long after the outbreak has passed. The Ku Klux Klan is an extreme form of Protestant nationalism; in fact, we must almost consider it a fever, as otherwise we are apt to exaggerate it during the crisis and to belittle it when the temperature has fallen again.

It is more than a secret society; it is a state of mind. It is more than a whim; it is the revival of a whole series of earlier revolts against immigrants, negroes, Catholics, and "outsiders" generally. This nationalistic chauvinism dates back many years without even a change in its vocabulary. At the end of the eighteenth century we find the public on guard against "un-American" ideas. About 1830, when the Irish immigration began to be im-

portant, "native American tickets" grew up spontaneously at the elections, the idea being to keep foreigners out of elective or honorary positions. The "Know Nothing" secret society reached its climax in 1858 during the peaceful German-Irish invasion. By means of pass-words, secret ceremonies, etc., it endeavored to combat the growing influence of Catholicism, which was making itself felt in the "ignorant foreign vote," as it was called. It is estimated that at its maximum the "Know Nothings" had some 1,250,000 members.

A generation passed, and in 1887 we see the anti-Catholic American Protective Association struggling against the Latin-Slav invasion. A false encyclical was produced to prove that the Pope was claiming the entire American continent on the ground that Christopher Columbus was a Catholic. Protestant America was threatened! The Middle West and the West responded to the appeal of the A.P.A., and many recruits were obtained in Michigan, Ohio, Illinois, Iowa, Missouri, Kansas, and Nebraska. The "Know Nothings" and the A.P.A.

are the forerunners of the present Klan in so far as the latter is directed against Catholics, Jews, and foreigners.

The negro, however, has been the principal objective ever since the Klan was first founded by the Southerners in 1866 at Pulaski, Tenn. The aim of the original Klan, to "maintain the supremacy of the white race in the old slave States," its methods, its hierarchy, and its picturesque language, have all been handed down intact to the present society. When the "carpet-baggers" united with the negroes after the Civil War, the Southerners were able to resist only by outlaw methods. They fought the "impious domination" of the negroes in the name of their own racial superiority, and, as Klansmen, undertook to carry out an unwritten code which they considered to be the only just one. Realizing that anything solemn and mysterious has an immense effect on the ignorant and superstitious negro, they chose as their weapon a secret society, which in any case has a great attraction for the American mind. . . .

Fifty years later, in 1915, it needed only the fear of another crisis for the Klan to be revived at Atlanta, Georgia. It did not attain any importance until 1917 or 1918, when the war-time mob psychology asserted itself in the reappearance of nationalism and xenophobia. This time the movement was founded by William Joseph Simmons—"Colonel" Simmons, rather, as he had been a volunteer in the Spanish-American War. The Colonel is one of the many Protestant lay preachers who were impregnated with a sort of imperialistic mysticism by the War. The secret society which he founded with the time-honoured title of the Ku Klux Klan was "consecrated as Protestant to the teaching of the Christian religion, and pledged as white men to the eternal maintenance of white supremacy."

In the South, circumstances had aroused old fears anew; for many negroes who had joined the army in 1917 had been sent to Europe, where they had often been treated as equals, and even gone about with white women. It was essential to keep them in their place when they returned; so the Klan was to be there just as it had been in the reconstruction days after the Civil War. Also, if alongside the negro, the Catholic foreigner should get out of hand, or the Bolshevik should preach his odious doctrines, the good Protestant citizens would have the Klan with which to keep them in order. In 1919 and 1920, the Klan probably numbered some tens of thousands, and as was the case half a century earlier, its influence took the form of spontaneous interference in the maintenance of order. There were warnings sent to bad citi-

zens, sensational examples calculated to excite the imagination, and threatening notices, not to mention solemn processions.

The Klan's greatest period of expansion was not so much during the War, as while the peace treaties were being drawn up, for it was then that America awoke to the danger of invasion by the lowest element of the Old World. The army had come back rather anti-European in sentiment, and those who had stayed at home were bubbling over with unexpended energy. Furthermore, many demobilized soldiers found their places taken either by a negro or by some uncouth alien, and that alone was enough to excite a feeling of group animosity. "All these foreigners are banded together and organizing, with the Catholic Church in the lead," they grumbled; "we must organize too." It was at this moment that the Ku Klux Klan, which had been suffering somewhat from the blundering administration of Colonel Simmons, was reconstructed according to approved American methods, and the new directorate, in best "booster" style, made a very good thing out of it financially. Under their impulse the character of the Klan changed entirely. It was no longer simply a local southern reaction, but became the chief expression of the national instinct of defence; and accordingly its centre shifted from the South to the West and Southwest. . . .

In the South the K.K.K. reaped the harvest of a soil that had been tilled for two generations. In the Southwest and beyond the Mississippi it touched a different clientele in the small-town Americans, the descendants of the Puritan pioneers who colonized the West in the middle of the nineteenth century. Their orthodox Protestantism and old-fashioned type of Americanism has persisted unchanged beneath an impenetrable veneer of boredom. Nothing can exceed the mediocrity of these small communities, where local public opinion aggressively spies on any one suspected of being different. The Klan was never entirely successful in the big cities with their mixture of races and groups, nor yet in the isolation of the open country, but it absolutely controlled the small towns. An intellectual aristocracy scarcely exists in these shut-in communities, where even the school teacher is held on a tight leash. Society is run by a narrow-minded middle class and inspired by a Protestant clergy to whom the Invisible Empire is not without its attractions. The Baptist minister is usually in sympathy with the Klan and is often appointed Kleagle or local publicity agent. When a hooded band marches mysteriously out to offer a well-filled purse to some worthy preacher, the choice never falls on a Cath-

olic priest or an Anglican clergyman, but always on a Baptist or a Methodist.

It is largely due to the Protestant minister, whose influence has been growing since the War, that the well-meaning but timorous middle class has been awakened to certain fears—the fear of Catholicism, atheism, and evolution; of wine and European immorality; of radicals, Bolsheviks, and revolutionaries; of invasion by blacks, yellows, and Latin-Slavs; and of the mongrelizing of the race. . . . Therefore, when the K.K.K. came forward as the champion of national morality in partnership with the Fundamentalists, the Prohibitionists, and the anti-evolutionists (who are really the same people), its authority was very great. With the help of the ministers, whom the Anti-Saloon League has craftily appointed electoral agents, and the "Babbitts," those typical honest business men, the Klan is saving society. New York may laugh, but the local politicians know what they are dealing with; and they are careful to watch their step where the Klan is concerned. This accounts quite naturally for certain manifestations, such as the anti-evolutionist law in Tennessee and the prohibition amendment, not to mention various other laws intended to purify both customs and souls. It is simply a case of threatened Americanism taking refuge in the stronghold of conformity.

It is quite evident where K.K.K. propaganda has succeeded. Sooner or later it was bound to attract the dregs of humanity, for they are always in favour of illegal direct action; and the South in particular seems to have suffered from this abuse. The program of the Klan, however, was able to attract honest men; and the greater part of its personnel was recruited from the middle-class. It also thrived exceptionally well wherever the old-time groups remained distinct and strong, as the geography of the Klan shows. It is difficult to map it out accurately, partly because no statistics are possible and also because it changes from month to month. The Invisible Empire has no fixed boundaries but moves like a storm across the country, with the centre of depression changing every moment. Up to 1920 the South was the chief zone affected, but after that the depression moved to the Southwest and West, and extended to Southern California on the one hand, and on the other to the Northwest as far as Oregon. At the same time it spread up the Mississippi Valley and installed itself in full force in the old American districts of Indiana and Ohio. Finally it penetrated to the East, principally to the small non-industrial towns of New York State, Massachusetts, and the northeastern part of Long Island.

This topography shows that the Ku Klux Klan

is strong wherever foreigners are not too numerous. It has never been a power in the conglomerate cities of New York and Boston, although in certain places which are reacting violently against foreign infiltration, it has gained great strength. All that is needed to provoke a sudden outbreak is a trivial incident, a scandal over some corrupt party machine run by Irish politicians, excessive zeal on the part of the Catholics, or the arrival of a band of negroes or Jews. In Indiana, for example, the outburst took the form of Americanization by intimidation; and pressure was brought to bear on business, on elected officials, and in fact on people generally. This difference in attitude between the old-fashioned small towns on the one hand and the industrialized city districts with their masses of foreigners on the other is of first importance, and explains much in post-war American politics.

In the South the defence of the white race was the attraction; in the West the bitterness of the Anglo-Saxon Protestants against Rome and European demoralization; and in the Northwest it was hostility toward foreigners, Jew or Catholic, Russian, Irish, or Mediterranean. In every case, however, they aimed chiefly at the Catholic Church. An anti-clerical Frenchman can understand their prejudices, for he realizes that they are less against religion than against the Church as a political institution led by an Italian. A stubborn or ignorant American will never admit that a Catholic can conform entirely to the spirit of the Constitution and at the same time serve the Church, for at any minute he may receive orders from the latter. Experience shows that such instructions have been given, if not by the Pope, at any rate by the priests during elections. This classic objection is specially strong in the United States, because the Roman Catholic Church is suspected of carrying on religious colonization there. What was in France simply a quarrel over doctrines is a rivalry of race in America.

The critical sense is not the most highly developed in America, and this possibly explains the quite improbable rumours that are continually circulating. *The American Standard*, the fortnightly organ of the Ku Klux Klan, provides a choice collection of pearls. Here are a few quotations picked out at random.

In the issue of August, 1925, we read:

"Do you know that Rome looks upon Washington as the future centre of her power and is filling our government departments with Papists? That the hierarchy for many years has been buying strategic sites in our capital? That in our Department of State at Washington, 61 per cent. of the

employés are Roman Catholics? That in our Treasury Department, in which the duty of enforcing prohibition is vested, 70 per cent. of the employés are Roman Catholics?"

Or again, stronger still, in the issue of October 1, 1925:

"We again take the occasion to attack the sinister purposes and persistent efforts of the Roman Catholic hierarchy, to foist upon us the belief that Christopher Columbus was the discoverer of America, and through this fraudulent representation to lay claim to inherent rights which belong solely to Nordic Christian peoples, through the discovery of this continent by Leif Ericson in the year 1000."

A Catholic might reply that there were no Protestants in the year 1000, and therefore Leif Ericson must have been a Catholic himself. But this does not disconcert the *American Standard*, for under date of October 15 we read:

"The servile subject peoples of the Mediterranean have been willing subjects of the Vatican, but the spiritually-minded, chivalrous, and freedom-loving Nordic peoples have always been hostile to Rome."

*The American Standard* allows itself to be carried away by such exalted idealism; so it winds up by enunciating a program which may be coherent but would certainly be impossible in actual practice:

(1) Laws to require the reading of the Holy Bible in every American public school.

(2) Recognition of the fact that the doctrines taught by monarchical Romanism, and the principles embodied in free republican Americanism, are opposed.

(3) Recognition of the fact that since Roman Catholics give first allegiance to an alien political potentate, their claim to citizenship in this Protestant country is illegitimate.

(4) Revision of our citizenship laws, to wipe out the "alien vote."

(5) A law to destroy the alien influence of the foreign language press by requiring that the English language be used exclusively.

(6) The exclusion from America of the Jews who work against Christianity.

(7) The return of the negroes to their homeland of Africa.

(8) The voting privilege to be restricted to citizens who have spent at least four years in the American public schools.

(9) Strict adherence to the Constitution of the United States, including the prohibition amendment.

(10) The teaching of Christ Jesus, as given in

the Holy Bible, the Word of God, as the standard of American conduct in public and private life.

Imperial Wizard Evans, the supreme head of the Klan, boasts that he is "the most average man" in America. In spite of their ridiculous and aggressive form, these ideas are very widespread among the more ignorant Protestants, and will likely survive the secret society which is now expressing them so vigorously. They are an inspiration to the 100 per cent. American, for they represent a tendency in which the Klan is but a picturesque and passing episode. Even the number of members, if it were published, would not tell us much, for the organization is less important than the atmosphere it expresses.

The organization, as such, has declined rapidly since 1923. In 1921, the *New York World* estimated its membership at half a million; in 1922 a Congressional committee of inquiry could not find more than 100,000; in 1923 *The World's Work* suggested the figure of 2,500,000; in 1924 Mecklin, in his excellent book on the Klan, speaks of "millions." Decadence had, however, set in, first in the South and then in the Southwest. In September, 1925, the Klan was still able to fill the streets of Washington with an immense procession; but in February, 1926, an inquiry made by the *New York Times* reveals an absolute rout.

The weakness of the movement lay in the fact that when asked to carry out constructive work, it had always proved incapable. It did succeed in conquering whole States politically, such as Oklahoma and Georgia; but nothing came of it, for as soon as it came out into the open, the secret society lost its force by losing its mystery. The power of the Klan is at its best when pulling wires in the local legislatures or even in Federal politics. In 1924 it controlled at least half the Democrats at the national convention to nominate the presidential candidate, and the Republicans on their side did not dare oppose it. Now, however, the period of intimidation seems to be past, and in a few years the Klan will probably count for very little, although the prejudices it represents will survive. After all, it was a typical post-war movement. Stripped of its violence—the legacy of the South—and of its childish and grandiloquent ritual—the legacy of American Free Masonry—it still stands for a national reaction or the resentment of the old-time Americans against the alien masses.

#### CHAPTER X: NATIVE AMERICA VS. ALIEN IDEALS

In conclusion let us briefly review the various aspects of the present situation in the United States: the anti-evolutionist campaign, educational

intolerance, prohibition, the restriction of immigration, and the fear of Catholic Europe as expressed in the Ku Klux Klan. They all spring from the same origin and can be summed up in the formula, "America for Regular Americans." At the moment American nationalism is taking the form of a cult of the native-born, but will this last?

In the nineteenth century the new continent gladly threw open its doors to the oppressed of the world. In the United States any one could find a new fatherland and the right to call himself an American. This is now giving way to a contrary conception, according to which the country must mould its future from the one race with which its religion, moral code, and exclusive traditions are associated. The purists, who guard all the avenues of approach, contend that the country must no longer be considered as common property; for it really belongs only to those who were born into the original family. It is now a question of birth rather than adaptation.

This is the latest theory, but in practice the way had long been prepared for it by the people themselves. As always in the past, the Protestant of Anglo-Saxon stock considers himself a member of an aristocracy endowed with special privileges. In spite of the Constitution there has never been complete moral and social equality between those who were and those who were not born in the country—we might almost say between the first- and second-class citizens. Naturally this depended on the time required for assimilation and the inferiority of the newcomer in comparison with the original inhabitant. The immigrant who stammers broken English, or possibly does not speak it at all, and is unable to break away from his own peculiar habits, naturally thinks and feels different. He is bound to be regarded with suspicion by the "100 percenter" who is certain of his heredity and proud of his standard of living—so sure, indeed, of his moral superiority that he dares, according to Imperial Wizard Evans, "look God straight in the face." As assimilation gradually takes place, the distance between the two types is reduced, but any peculiarity on the part of the newcomer is unconsciously judged by the American as a sign of inferiority.

This is not to be wondered at, if we recollect that Europe has not been sending the best of her citizens across the Atlantic, during the past century at any rate. To an American child an Italian is a pedlar, a Greek, a bootblack or cheap restaurant-keeper, and a Frenchman a low-class barber. It never occurs to him that other Italians and Frenchmen exist in France and Italy who are gentlemen and much more cultured than he is

himself. Wise parents send their children to Europe to learn these things, but the contempt of those who have never travelled is almost unfathomable. They regard the people of the Old World as immoral and degenerate, ignorant of the most elementary rules of hygiene, dominated by a fanatic priesthood, perpetually menaced by anarchy and revolution, likely to die of hunger—this sounds like an exaggeration, but it is perfectly true!

The result of this attitude is distinctive treatment for the immigrant, and in point of fact, justice for the alien is not the same as for the real American. In all honesty a judge will believe an American witness rather than a foreigner; a doubtful case would probably go against an Italian, a Russian, or a Greek; and of course a coloured man takes even greater chances. If some new system of capital punishment were introduced, it would be tried out first on a Chinaman, who had already been found guilty, of course. Such a case actually occurred in Nevada. In every-day private relations the difference between the races is even more marked. In order to prevent foreigners from filtering into the clubs, hotels, and homes of the old residents, a regular system of defence is erected against them. Certain communities of pure British origin, though they are little known to the public, have great social and political authority, simply on account of their unalloyed traditions.

This self-satisfied and ingenuous belief in the inferiority of the rest of the world does not arise from any ill will. The Americans are a kindly people, but they cannot understand why others do not adopt their way of thinking and acting, with enthusiasm and gratitude. The superiority of their civilization seems so obvious to them that to question it seems as futile as denying the existence of the sun. . . .

Their idea of Americanization is to adopt Anglo-Saxon moral, social, and religious principles. In the nineteenth century they thought that the Italian, Russian, and German immigrants would turn out to be men like themselves. It was not so much a matter of fusion, or of mixing several elements to produce a new compound, but rather the digestion by one race of all the others, until none of their individuality survived. However, when the assimilators began to see that the character of the American people was changing and that the pretended assimilation often meant only fusion or a juxtaposition, their attitude of welcome turned into hostility and exclusiveness.

They had, however, already allowed sufficient foreigners to penetrate to evolve a new American spirit in opposition to their own. As the aliens ar-



rived in greater numbers some of them gradually began to reject the verdict that they were inferior on account of their origin, though they were just as eager to become Americans as the rest. Naturally the temperament of the Anglo-Saxon was bound to succeed better in a society based on co-operation, but the unqualified statement that the Nordic races are superior contradicts every experience. Without generalizing, one may say that when you notice a sparkling eye or a nimble mind it is often in an Italian, a Jew, or a Russian. Like uncut jewels, they had come from Europe with their traditions of brilliant civilizations, which they were asked to abandon at one fell swoop. Many, especially among the intellectuals, deliberately refused. The American-Italian who writes English with a Mediterranean flourish, the American Jew with his centuries of accumulated knowledge, and even the negro, whose music and dancing have added to the artistic patrimony of the whole human race, have all contributed to American civilization; and when they enroll themselves in the movement they insist that they should be received just as they are and with all the honours of war.

Obviously this Americanization is entirely different from what was planned by the assimilators. It is the kind of Americanization that Israel Zangwill, the Jewish writer who popularized the metaphor of the melting pot, deals with in semi-religious vein: "America is God's crucible, the great melting pot where all the races of Europe are melting and re-forming. . . . The real American has not yet arrived. He is only in the crucible. I tell you—he will be the fusion of all races, perhaps the coming superman." The Catholics cherish this idea when they maintain in all sincerity that there

is no need for them to sacrifice their religion in order to become Americans. Waldo Frank makes a magnificent defence of this conception in *Our America*, when he demands the right for all to collaborate in building the America of the future.

We must not underestimate the prestige and strength of this ideal, for like other types of Americanization, it attracts both firm believers and mystics. Countless immigrants have left the Old World, inspired by the liberty that they were to find in the New; and in their passionate desire for regeneration they have gladly transformed themselves, in the belief that they were contributing to the formation of a new nation. They were filled with admiration and gratitude for their adopted country, and this very faith in a land which could revive the weary by the breath of its independence was the strongest cement of the Union. Now when the "100 percenters" maintain that the true American is not of the future but of the past, and that he alone is of the privileged few who can claim founders' rights, then the newcomer no longer recognizes the ideals of which he had dreamed.

Is it possible to contemplate a United States that is neither Protestant nor Anglo-Saxon? This is the aim of an opposition which, however, is not constructive and resists only by instinct. And yet they persist. If their policy were to become constructive and they obtained control, we might have a new America resembling in many ways the New York of today; but to the old Puritan element it would seem a shocking perversion. The final destiny of the country is still in suspense, and it is unable to foretell what tomorrow will be its very soul.



# AMERICAN PROBLEMS

## THE WORKERS OF AMERICA

ROBERT W. DUNN

IF AMERICAN WORKERS shared in the prosperity of the nineteen twenties, it was only in limited degree the result of pressure from labor organizations. The first years of the postwar decade saw a vigorous and successful drive against unionism. The steel workers who rebelled against the twelve-hour day in 1919 were completely defeated; injunctions sent the railway shopmen back to work and broke the coal miners' strike in 1920; by the middle nineteen twenties, labor was weaker than it had been before the war. It lost the entire brewery industry when prohibition ended legal brewing. Unionism declined in the metal trades; disappeared in textiles; and made no incursions into automobiles, food, or steel. The new industrial force represented by women and Negroes remained untouched.

Labor had suffered from internal divisions over socialism and communism. It had been unable to check the determined antiunion drive of organized industry. Significantly enough, the A. F. of L. had failed to reckon with the nature of modern industry. The measure of its leadership may be taken from the fact that though Samuel Gompers was a cigarmaker by trade and had helped make his union effective in its own field, the tobacco industry remained unorganized and the cigarmakers themselves were unable to meet the challenge of the intro-

duction of machinery into their own craft. The A. F. of L. endorsed Gompers's hard-bitten refusal to adopt any consistent attitude toward industry as a whole. It confined itself to its own task, securing more wages for the craftsmen who were protected in their skills by the failure of employers to introduce machinery. More and more, the Federation tended to be guided by a self-perpetuating leadership whose utterances—and practices—were not much above the level of the business and political worlds of the nineteen twenties.

Hand in hand with the A. F. of L.'s complete misreading of the trends of American industry, went the skilful so-called welfare offensive of the great American corporations. These established employee-representation plans; set up company unions; provided pensions; and engaged in other types of welfare activities. So successful were they that the great masses of the American workers remained unorganized; and, in fact, company unionism was not terminated until the Wagner National Labor Relations Act of 1935 discouraged it by law.

Robert W. Dunn (1895- ) describes the welfare programs of corporations in the selection here reprinted. It appeared in J. B. S. Hardman, ed., *American Labor Dynamics* (New York, 1928) and is published by permission of Harcourt, Brace and Company.

### *The Industrial Welfare Offensive*

BY ROBERT W. DUNN

#### I. TYPES OF WELFARE PRACTICES AND THEIR PURPOSE

EMPLOYERS in the United States have learned a good deal during and since the World War. A

number of them, from among the largest, have come to the realization that pre-war "rough stuff" does not always pay under the new dispensation. They have been converted to the view that the open shop can be preserved and its blessings real-

ized more effectively in the long run by cultivating the workers as individuals than by frontal attacks upon their unions.

Whatever the outward claims made by the advocates and promoters of the personnel policies in establishing their various plans, often at not insignificant expense to the corporations, at final count they really are out to fortify the morale and loyalty of the worker to the business enterprise which employs him, to make him stay content with things as they are. Definite benefits, such as reduced labor turnover, long service records, devotion to the job, the avoidance of labor troubles, lesser labor costs, as well as a reputation for being an up-to-date and liberal corporation, are the objectives at which the welfare practitioners aim. The expenditures incurred by this kind of labor management are considered a profitable investment, if and when the ends sought are achieved. On the other hand, these "plans" are readily scrapped if they don't deliver the goods. Often the whole practice is discarded in connection with a change of management in the enterprise, as was the case with the American Woolen Company a few years ago.

## 2. THE SCOPE OF THE EMPLOYERS' OFFENSIVE

There are no definite and thoroughly reliable available data as to the extent to which the major devices in the welfare offensive have been applied and developed. More is known about the company union variety of welfare offensive often described as the works council, the shop committee, and the industrial council. The number of workers employed in corporations practicing employee representation of one kind or another is probably close to one and a half million. In 1922 the number was below 700,000; in 1919 it was less than 400,000. It is stated that the company unions have gained since 1919 almost as many members as the A. F. of L. unions have lost, which coincidence, however, proves no point, since the two facts are not of necessity correlated. The gains to the company associations, in some cases, have been in industries where the trade unions had displayed rapid mushroom growth during the war. Altogether somewhere between 800 and 1000 firms now operate one kind or another of employee-representation plan in their plants. The spread of the independent association and the committee system was very pronounced on the railroads particularly after the defeat of the shopmen's strike in 1922. More than 60 railroad administrations now cultivate company unions in one or more branches of the service. The four train service brotherhoods are, of course, without exception

recognized and have suffered no inroads at the hands of the company associations or bodies of company-trained or -minded workers divorced from the regular bona fide labor unions. Other industries which have been well punctured by the company union are the printing trades, metal trades, electrical industry and various public utilities. In certain sections of the country large groups of workers employed by a number of companies are sometimes lined up in a system of works committees negotiating with the employers' association. The Loyal Legion of Loggers and Lumbermen in the Northwest and the system of committees covering the waterside workers of Seattle are examples of this type.

Next in extent of spread of the devices or weapons in the arsenal of welfare is employee ownership of corporation securities. The number of firms which have offered stock for sale to their workers has been only roughly estimated by students of the subject. In the course of recent investigations into this subject some 400 firms have been mentioned as offering stock subscription plans to their employees. There are tables showing the *growth* in investments by employees for a number of selected companies. The increase in the number of employee stockholders of 1925 over 1918 is reported as follows by R. S. Binkerd, Vice Chairman, Committee on Public Relations of the Eastern Railroads (*Proceedings of the Academy of Political Science*, Vol. XI, No. 3, April, 1925): railroads 70,262, street railways 15,000, gas, electric light and power companies 75,000, telephone and telegraph 62,649, packers 7,000, ten oil companies 21,153, five iron and steel companies 87,696; or a total increase in seven years in these selected companies of some 340,000 worker stockholders.

Group insurance is another rapidly developing device for fixing the worker's loyalty to a specific plant or company. Its growth may be measured by taking the total amount of the policies outstanding for the seven leading life insurance companies engaged in the business of writing these group policies for industrial concerns. In 1912 the amount of employee group insurance in force through these insurance agencies amounted to a little over \$13,000,000. During the next five years this amount grew to over \$346,000,000. In 1922 it had reached \$1,852,593,553, a gain of nearly 600% in five years. By 1923 it had grown to \$2,396,758,418 and the next year the companies registered \$3,099,019,607 worth of this type of insurance on their books. In one company alone there were 540,000 workers' lives insured, with an average protection of \$1300 per life.

There has been a similar steady rise in the number of companies using industrial pensions and in the amounts paid out to workers. A recent study by the National Industrial Conference Board estimates that more than \$30,000,000 was spent during the year 1925 by American industry for employee pensions. This study covered pension plans conducted by some 245 different companies embracing 2,815,512 workers in practically every industry but notably in railroading, public utilities and metals. Of the companies covered in this survey 164 reported a total of approximately 36,000 pensioners already on their rolls.

Other welfare devices most in practice are mutual benefit associations, company magazines, profit sharing, thrift plans, building and loan groups, sanitation committees, committees on recreation, housing, athletics, country clubs, hospitals, social work, cafeterias, Y.M.C.A. services, service-pin associations, and probably another hundred varieties of uplift activity.

### 3. WHAT EMPLOYERS WANT THE WELFARE OFFENSIVE FOR

What specifically does a company hope to gain from the introduction of an employee-representation plan or a company union? The utterances of the employers themselves reveal their objective in establishing the company union. A few sample sentiments are worth quoting. In 1925 an employer's journal, *Factory*, conducted a symposium among business executives on the effectiveness of employee representation from the employers' point of view. One company president in reviewing the progress of the works council in his plants, said:

Grievances of the personal type such as those having to do with wages, hours of work, working conditions, and so on, have practically ceased. Those that the council now discusses are more likely to do with the tools and machinery of production. . . . That of course suits us perfectly for it means greater production and lower costs.

Another executive, the head of a great steel corporation, answered the questionnaire:

Grievances, in importance, are rapidly being replaced by constructive operation problems, covering such subjects as increased production, economy, better quality and service.

Still another, the labor manager of an important rubber concern, pointed out the stabilizing effects such a plan has upon the more discontented workers:

Men who were radicals have been elected to the Goodyear senate or house of representatives and have

found out the company's side of their problems with the result that they have become much more reasonable to deal with.

Companies that have tried out the company-union approach to the labor problem express the hope that they will be educational and school the worker in "sound business economics." Others consider the company union the one way of discovering what's on the worker's mind without the use of spies and undercover men. Others, again, talk vaguely of coöperation, mutual understanding, harmony and good will. Quite a number frankly admit that the scheme is nothing but an effective labor-union antidote. . . .

### 4. METHODS AND DEVICES OF WELFARE PRACTICES

It is impossible to do more than mention in this section a few of the provisions of the various welfare expedients whereby employers secure the objectives above stated. The benefits to be obtained from the plans are all graduated with respect to the length of service with the company. The longer the worker stays, the more he gets out of the plan. Turnover is the major problem to be solved, and all of these devices drive straight in that direction.

Then, too, the management naturally reserves the right to withdraw a pension, an insurance, a stock-ownership or a company-union plan whenever it wishes. *No legal contractual relation is involved even in the case of the pension schemes.* Another corporation taking over the plant, for instance, as Armour and Company, absorbing Morris and Company, leaves the pensioners without any pensions in spite of their long service for the latter company. The courts tell them they have no legal claim upon either company. The workers of the Steelton Steel Company fared the same way when the Bethlehem Steel Company absorbed their plant some years ago.

Finally managements keep a tight hold on the control of their employee-representation plans. On the councils and committees, the representative of the management—often the plant superintendent himself—is, by the constitution, appointed to act as chairman and general director of the "legislative" operations. Holding this strategic position he can always put over what the company considers good business policy. The worker delegate may be ever so zealous in the interest of his constituents but the management holds the gavel and wields it softly but firmly. Under many of the plans the final appellate authority in the settlement of disputes arising in the councils is the President of the company, or as in the case of the

Standard Oil Company of New Jersey, the Board of Directors. Occasionally outside arbitration will be permitted or a reference of the dispute will be made to some official in the national government, say the Secretary of Labor.

#### 5. WHAT TYPES OF EMPLOYERS USE WELFARE?

Our church societies and Christian socialists seem to be impressed with the good men who have applied the welfare treatment to industry. Such men as Dennison, Filene, Hatch, Hapgood, are reputed to be substantial Christian gentlemen. But for one of these modern saints disguised temporarily as *entrepreneurs*, we find, in running our finger down the list, a dozen corporate names which connote anything but peace, good will, and conciliation in industry.

Consider, for example, some of the companies that have embraced employee stock ownership, understanding as they do the psychological effects of a wider distribution of the *feeling* of ownership among the workers. Foremost among these corporations stands the United States Steel Corporation, whose president considers the Golden Rule to be the "panacea for the ills that sometimes appear to the moral, political, social, or economic life." The Interchurch Report on the Steel Strike will illustrate the late Mr. Gary's text. The Good-year Tire and Rubber Company comes second in the number of employees included under this type of scheme. Its fight on the rubber-workers' unions is continuous and altogether effective. There is also the American Telephone and Telegraph Company, whose kindness towards its workers can be measured by the resolutions to investigate its anti-labor technique introduced at the 1925 convention of the A. F. of L. The Youngstown Sheet and Tube Company, which has made it a policy to fire union men from its premises, has a stock-ownership plan as effective as that of the United States Steel Corporation. The Union Pacific Railroad, one of the hardest of the hard-boiled western roads, which in 1922 broke a strike of shop-craft workers and made all new employees in that department sign yellow-dog contracts, granting check-off privileges to a company union, can be added to the list. The Standard Oil Company and its subsidiaries as well as the Colorado Fuel and Iron Company need no introduction to those who remember the savage attacks they have made on union workers from Bayonne to Pueblo.

Where is the company in the list of employee stock distributors, company-union practitioners, pension providers, and insurance underwriters that will admit a real labor union to its plants, recognize that union, and deal with it through the

normal processes of collective bargaining? That question is the touchstone to labor policy, and no person interested in the advance of the American labor movement should fail to apply it when confronted with the salesmanship of welfarism.

The Eastman Kodak Company is another employee stock-ownership company that does not tolerate disturbers and union enthusiasts in its own provincial heaven. Others are the Great Atlantic and Pacific Tea Company, which discharges any man suspected of affiliation with the clerks' union; the American Woolen Company whose labor policy is known to those who followed the textile strikes of 1913 and 1919; the American Sugar Refining Company, client of the Sherman Corporation, industrial spy agents; the Brooklyn Manhattan Transit Company with its yellow-dog contracts and company association; Armour and Company and Swift and Company with their "jungle" full of stool pigeons and strike-breakers; the Pennsylvania Railroad, dean of company-union roads; the Bethlehem Steel Corporation, Mr. Schwab's own principality, the company whose admitted policy it was to sell structural steel only to non-union erectors, and whose president, Mr. Grace, declared he "would not deal with unions, even though they embraced 95% of his employees"; the National City Bank of New York, a leader among the banking fraternity of labor deflators; the Lehigh Valley, another company-union road that introduced employee ownership and company unions partly to offset what it termed "the strong-arm method advocated by the Plumb Plan propagandists"; the Illinois Central, hostile to unions and the leader of many a drive against them; Henry Ford, who is the very soul of welfare as a business proposition; the Pacific Gas and Electric Company, heavy contributor to open-shop slush funds on the west coast; numerous public utility companies presided over by Mr. Samuel Insull of Chicago; the General Electric Company, where they fire men who agitate for the recognition of the electrical workers' union; the Westinghouse Electric and Manufacturing Company, notorious for its employment of thugs and deputies in past strikes; the Republic Iron and Steel Company, and the National Biscuit Company. . . .

#### 7. THE TRADE UNION FACING THE COMPANY UNION

The trade-union official, faced with a dwindling membership resulting from the employers' schemes, is naturally driven to denounce the whole business of company unionism and welfare. Especially if the introduction of a "plan" leads to a declaration of non-recognition by the company

does the union leader resort to every device of argument. His contentions against the employee-representation plans are well known and often stated. He shows that the company union has no economic strength and no treasury, that individual representatives are responsible to no one unless it be to the company which pays their salary and their expenses, that the representatives may be intimidated or bribed, that the plan is almost always used to discredit and wipe out the real union, that company unions are often propaganda agencies for the employers' reactionary political and social ideals.

Particularly convincing is the contention of the unionist that the management is recognizing "outside" forces, "outside agitators," when he consents to accept instructions, pressure or force from the directors and stockholders of the company. Certainly, most of the directors, and the few controlling stockholders, are not insiders in any true sense of the word. Contrasted with this, the worker is investing his life in the factory. He must be there eight to ten hours a day. Every factor of technique and management affects him immediately and directly. Yet when he asks that his vital interest be represented by a trade-union official of his own choosing who gives his full time to the work, he is told that no outsiders will be admitted. Furthermore, the manager will call in to assist him in such negotiations as he condescends to carry on with his men an expensive staff of talent—lawyers, statisticians, investigators, industrial counsellors, service bureaus, with undercover operatives to spy on the workers, personnel managers. He will hire them with one end in view—to obtain the best possible terms out of such wage bargaining as he may conduct with his company-unionized workers.

These are the arguments of trade unionists and they are sound ones. What then can the union do about it? Can it control the company union? The phrase was used by the President of the A. F. of L. at the last convention: "If representatives of the union control any employee-representation plan offered by employers, it ceases to be a menace." And in the *Federationist* of October, 1925: "Wage-earners will do themselves and industries a great service when they capture company unions and convert them into real trade unions. The machinery of the company union offers a strategic advantage for such tactics. Use that machinery as a basis of a real organization." William Z. Foster of the Trade Union Educational League points out some of the appropriate tactics for capturing company unions by exposing their "hypocritical

pretenses" and by "penetrating these organizations by putting up candidates in the shop elections against the recognized company candidates." Implicit in the statements of both these leaders is the major purpose of complete destruction of the company union once the boring from within has been successful. Some idealistic personnel managers have spoken of the compatibility of trade and company unions and the possibility of their functioning in the same plant. But Green and Foster know, as every realistic labor unionist knows, that the two are diametrically opposed in principle and practice and that they represent distinct and conflicting systems of labor relations. They can not grow in the same garden. In the half dozen or so plants where they have succeeded in doing so it has been at the expense of the vitality of the trade union. . . .

But no matter how effective may be the work of trade unions in occasionally capturing a company association, the question may be posed quite frankly: What are the unions doing within their own house to withstand the attacks of the company-made councils? Do they realize how much the employer is stressing factory solidarity as against craft solidarity? Do they realize that this argument sounds persuasive to unskilled workers, with no trade or craft, who work in the increasingly mechanized industry? The manager who is introducing a representation plan—or in fact any other sort of welfare device—talks to the workers in terms of the plant. The trade-union organizer talks to them in terms of craft, using the hoary symbols of a generation ago, about molders and patternmakers and machinists and the dozens of other crafts that are rapidly diminishing in importance, for example, in the automobile industry. Which is likely to catch the workers' ear? The answer is clear in the experience of the unions during the last few years, and in their failure to launch any drives against the big steel, rubber, electric and automobile companies. They are trying to use a wooden plow to cultivate a modern 5000-acre farm. The steel strike of 1919, the railroad strike of 1922, and other great industrial conflicts have demonstrated what antiquated tools the craft unions have become in the business of organizing the big manufacturing and transportation industries. The confusion and disillusion bred by craft-union failure in the worker's mind has made him easy prey for the personnel expert offering salvation in the form of the company union. That confusion and dismay will not be lifted till the unions move toward real amalgamation rather

than general, generous, but meaningless expressions of goodwill toward one another in time of strike.

Not only would a driving program of amalgamation hearten the workers who have been caught temporarily in the net of company-constructed unions. It would also strike at the roots of the whole practice of welfarism as a technique of chloroforming the group consciousness of the

workers. It would reveal the true nature of profit-conscious uplift.

When the trade-union leaders begin to talk seriously of amalgamation they may be taken seriously when they lay plans for boring within the company unions. Until then the employing interests can continue their welfarism at top speed. There is no force to challenge their professions and to arrest their processional.

## STERLING D. SPERO AND ABRAM L. HARRIS

THE FIRST World War shut off most foreign immigration and so eliminated the chief supply of cheap labor for industry. Factories and mills turned to the country's great labor reserve, then, and the Southern Negro was brought North, frequently as a strikebreaker. As a result, the Negro problem became nationalized, and a new element was added to the many influencing the formation of slums and the movement of population. Southern agricultural interests attempted to retain their Negro labor force—sometimes by violent measures against the labor agents who came South to recruit. Northern towns, crowded and tense with the impact of war, saw race riots and lynchings. In the same period, the Negro's contribution to the arts received new recognition as the "Jazz Age" dawned and white novelists thronged to Harlem for material.

In *The Black Worker*, Sterling D. Spero (1896- ) and Abram L. Harris (1899- ) are less concerned with the cultural incidence of the Negro's migration than with his economic condition. Their study considers the economic motives prompting migration, the work which followed, and the Negro's economic position after war demand for labor eased off. On the whole, the Negro had taken

the place of the newest immigrants: he did the more laborious sorts of work, received the least pay, and suffered the usual disabilities of the marginal laborer. These were increased by the fact of his color and were not mitigated by labor organization. Since the Negro was often an unskilled worker in mass production industries, craft unionism did not touch him. Skilled Negroes were often excluded from unions or thrust into special categories that prevented their working at the more desirable jobs. As a result, Negro organizations had small regard for labor unionism. Their largest concern was with philanthropic activities or the fight for civil rights. Thus, industry's antiunion drive received support from the presence of the large Negro labor reserve—and labor weakened itself by its intolerance toward or, at best, indifference concerning the Negro worker. Only in the nineteen thirties, as a result of C.I.O. activities, were Negroes being welcomed into many trade unions. But civil rights still continued unrealized.

The selection here reprinted is from *The Black Worker* (New York, 1931) and is published by permission of the Columbia University Press.

*The Black Worker*

BY STERLING D. SPERO AND ABRAM L. HARRIS

## CHAPTER VIII: TAPPING THE NEGRO INDUSTRIAL RESERVE

UNTIL THE World War, industry outside of the South was manned almost entirely by white workers. A steady flow of immigrants from abroad had furnished employers with a constant supply of cheap labor to meet the needs of industrial expansion. Negro labor, engaged chiefly in agriculture and personal service, was largely disregarded as a source of industrial man power except in such emergencies as acute labor shortages or strikes. Even in the South where the Negro slave had competed successfully with the white man in almost every branch of industry, the tradition of the separation of the races operated after emancipation to check the full and free use of Negro labor in industry. The industrial backwardness of the section made the more extensive use of black labor unnecessary and left the traditional relation between the races undisturbed.

Northern employers drew upon the reserve of Negro farmers and servants to help them break their strikes as long ago as the middle fifties, but it was not until the eighties, when Negro farmers began to find it too difficult to eke a living out of the soil, that the black man went to the cities in large numbers and offered serious competition to white labor. These migrants first settled in the cities of the South. Their further movement northward was determined by opportunity for employment. This opportunity came as a sudden windfall at the opening of the World War.

In 1915-1916, when large numbers of recent immigrants returned to their former homes in response to the call to arms, huge waves of southern Negro labor began pouring into northern industries. Still more of this labor drifted northward under the impetus of the war-time industrial expansion created by the entrance of this country into the conflict. When the war ended foreign immigration was restricted, and the northward trek of Negro labor continued on into 1924.

This mass movement, which reached its height during the war and early post-war years, was but a greatly accelerated phase of the general drift of the Negro population from the country to the cities which had been going on for half a century in increasing volume. The following figures, showing the percentages of Negroes living in rural and urban areas at each census since 1890, indicate the pace of the drift:

Year	Rural	Urban
1890	80.6	19.4
1900	77.3	22.7
1910	72.6	27.4
1920	66.0	34.0

During the period from 1870 to 1910 the number of southern born Negroes in the North increased at an average of about 67,000 in each ten-year period. Between 1910 and 1920 the net increase was 321,890, more than the aggregate number for the preceding forty years and about five times the average for the preceding ten years.

The migration responsible for this increase began about 1910 and rose to great heights between 1916 and 1919. This wave was followed by a movement of equal, if not greater, proportions, beginning late in 1921 and ending in 1924. An estimate of the United States Department of Labor based on data gathered before this second movement had run its course placed its extent at 478,700. There are no census figures to indicate the net increase in the Negro population of the North and West resulting from these two waves of migration, but an estimate of one million would probably not be far out of the way.

Nearly all the Negroes who left the South found their way to the industrial centers of the North and Middle West. The following table shows the increase in the Negro population of the most important industrial cities of the two sections:

## INCREASE IN NEGRO POPULATION IN TEN LEADING INDUSTRIAL CENTERS, 1910-20

City	1910	1920	Per Cent Increase
New York	91,709	152,467	66.3
Chicago	44,103	109,458	148.2
Philadelphia	84,459	134,229	58.9
Detroit	5,741	40,838	611.3
Cleveland	8,448	34,451	307.8
St. Louis	43,690	69,850	58.9
Pittsburgh	25,623	37,725	47.2
Cincinnati	19,639	30,079	53.2
Indianapolis	21,816	34,678	59.0
Kansas City	23,566	30,719	30.4

There are no reliable figures to show the increases in these cities since 1920. There is no doubt that they have been considerable, in some cases greater than the increase for the preceding decade.

A school census taken in Detroit in 1925, after the second migration had ended, placed the Negro population at 81,831, or double the 1920 figure.

The great bulk of these Negroes have found their way into industry. The census records 886,810 Negroes employed in manufacturing and mechanical industries in 1920 as against 631,280 in 1910, an increase of 40 per cent. At the same time the number of Negroes in industries concerned with transportation increased 22 per cent, and the number employed in the extraction of minerals increased 20 per cent, while the number in the Negro's traditional occupation, domestic and personal service, declined 5.5 per cent. It must not be forgotten, however, that despite the 24.7 per cent decline in the number of Negroes engaged in agriculture and the 5.5 per cent decline in the number in personal and domestic service, these two occupations at the last census still engaged the great bulk of the gainfully employed Negroes—3,301,150 out of 4,824,151, or 68.75 per cent of the total. Manufacturing, mining, and transportation claimed a total of 1,272,460.

Most of the Negroes who came North went into lower paid work requiring little or no skill or experience. The bulk of them became unskilled or semi-skilled operatives in the steel mills, automobile plants, foundries, and packing houses. Many went to work at road building and other construction jobs. Others, and this includes many women, went into the commercial laundries, food industries, and the less skilled branches of the needle trades. In some cities certain of the specialized sewing trades, for example, the making of lamp shades in Chicago, have come to depend very heavily upon the labor of Negro women. Between 1910 and 1920 the number of Negro women in manufacturing and mechanical industries increased from 67,937 to 104,983, while the number engaged in domestic and personal service declined from 853,387 to 793,631. . . .

Although a large number of these Negroes were employed at semi-skilled labor, the overwhelming majority of them were unskilled. Only a handful were doing really skilled work. The Ford Highland Park plant had only two skilled Negroes out of an estimated 4,000. At the Dodge plant 75 per cent of the Negroes were unskilled, while similar or greater proportions held for the Packard and Hudson plants. It was stated in 1926 that 65 per cent of all the Negroes employed in the city of Detroit were engaged in unskilled work. The remaining 35 per cent included all those engaged in work above the grade of rough manual labor.

This is generally true throughout all industry. In the building trades Negroes constitute but a

small percentage of the skilled mechanics. In 1920 they were 3.8 per cent of the carpenters, 8 per cent of the masons, 2.9 per cent of the painters, 5 per cent of the paper hangers, 15.2 per cent of the plasterers, 1.7 per cent of the plumbers, whereas their proportion of the laborers was 21.6 per cent. In the chemical industries in 1920, 23.4 per cent of the unskilled workers were Negroes, while the semi-skilled were only 4.6 per cent Negro. In the cigar and tobacco factories 66.8 per cent of the laborers and only 12.9 per cent of the semi-skilled workers were Negroes.

The jobs into which the Negroes went were usually those which native Americans or Americanized foreign-born white labor did not want.

Race prejudice naturally put difficulties in the way of the Negroes' entrance into industry. White employers sometimes refused to hire them and white employees sometimes refused to work with them. This was particularly true of smaller plants, although some large works like the Wisconsin Steel Company in Chicago, a subsidiary of the International Harvester Company, boast of their all-white character. The reason for this company's refusal to use Negroes when the other plants of the Harvester Company in the Chicago district employ over 2,000 of them is simply that the superintendent does not like them. Often an employer is doubtful of the Negro's ability to do his work or is fearful that his white employees may object to the black worker's presence. There have been instances of white workers objecting so strongly to the use of blacks that they have left their jobs. Between 1880 and 1900 there were thirty strikes reported against the employment of Negro workers, eight in the decade 1880-1890 and twenty-two in the decade 1890-1900. There are no available figures for subsequent years though it is well known that strikes against the Negro have occurred. The East St. Louis riots in 1917 and the Chicago riots two years later, though springing from complicated circumstances, were not without their labor angles.

The intensity of this race feeling was caused largely by heavy importations of Negro labor. Not all of the Negroes who poured into the northern cities between 1916 and 1924 came of their own initiative and found their way into industry by themselves. Thousands were brought up by the labor agents of large employers. An officer of the Illinois Central Railroad told how Negro labor was used to carry out its huge construction program after the war. "We took Negro labor out of the South," he said, "until it hurt." . . .

The chief obstacle to the continued, not to speak of increased, employment of Negro labor



after the employer's initial doubts and fears had been overcome by sheer necessity were difficulties in adjusting the newcomer to his strange industrial environment. The Negro migrant, who was for the most part a southern farm hand, unaccustomed to the discipline of industry, had his difficulties in adjusting himself to his new situation. Even those Negroes who came from southern cities and had had experience in the factories and mills had to make adjustments to the greater exactions and faster pace of northern industry. Employers complained that the Negro was unsteady; that he would lay off after pay day and spend his wages; that he would only stay on a job long enough to get some ready money and would then lay off until the money was spent, after which he would return to work and repeat the performance. Complaints over wage garnishments were frequent, but not more so than in the case of foreign immigrants. Both lacked resources and it is hardly strange that they ran into debt.

All these criticisms diminished as time went on and the Negro workers became accustomed to the discipline of northern industry. . . .

The most distinctive characteristic of the Negro's position in the world of labor is his relegation to occupations in which he does not compete with white workers—in short, the perpetuation of the tradition of black men's and white men's jobs. This tradition is not confined to the South, but extends throughout the country. Pullman porters and dining car waiters are almost invariably black, while railroad conductors, locomotive engineers, subway guards, motormen, sales persons in stores, clerks and white-collar employees of every sort are almost without exception white. Certain of the skilled crafts which Negroes have followed in the South for years are practically barred to the Negro in the North by union regulations or craft tradition where there is no union.

A complicated and inconsistent set of rationalizations has grown up to justify the system. The Negro cannot be a locomotive engineer because he is unfit to be entrusted with lives or property to such an extent. Yet as a slave he ran locomotives in the South and even carried Confederate troops to the front to fight for his enslavement. The Negro cannot be a mechanic because he is naturally incapable of doing skilled work although he followed skilled trades when they required a much higher degree of artisanship and skill than they do in this mechanical age. The Negro cannot be a clerk or white collar worker because these are positions of social dignity which members of an inferior race should not hold. Yet a number of cities and the federal government employ Negroes

in all sorts of clerical and administrative posts.

Between 1917 and 1929 the number of Negroes in the public service of the city of New York increased from 247 to 2,275. While this latter figure included 894 laborers and a great many messengers and office boys, it also included police, attendance officers, engineers, clerks, and school teachers. Many Negro teachers in New York and other northern cities teach white children. Between 1910 and 1928 the number of Negroes employed in the federal civil service increased from 22,540 to 51,882, making the United States government by far the largest employer of colored labor in the land. The colored workers on the government's pay roll include in addition to thousands of clerks all sorts of professional, technical, and administrative employees. This growing recognition in the public service is due to the colored citizen's increased political power, a by-product of the northward migration which may in time become a factor of first rate social importance.

All of this shows that the obstacles to Negro employment break down and that the rationalizations which support them go by the board when circumstances make such employment necessary or expedient. Where it is still possible to take advantage of the Negro and pay him less than a white man for the same work or to use him as a tool to keep down labor standards, the practice is followed. But where circumstances make this impossible or inexpedient the Negro receives the same treatment as the white man. Whether the Negro will hold the position in industry which he has won since 1916, whether he will become the victim of new inventions and new methods of production, whether he will withstand or give way under competition of white farmers who move to the towns, or of Mexican, South American, or other immigrants who come into this country, the future alone can tell. All that can be said at present is that the Negro has become an integral part of the labor force in nearly all of the country's basic industries.

#### CHAPTER XXI: THE NEGRO COMMUNITY AND THE LABOR MOVEMENT

The change in the Negro's relation to industry during the last decade and a half has been so sudden that neither the black nor the white working world has been able to grasp its significance and adjust itself to its circumstances. The essence of this change has been the shifting of the Negro's position from that of a labor reserve to a regular element in the labor force of nearly every basic industry. It has brought the Negro face to face with problems of working conditions, which,

though they may contain special elements, are essentially the same as the problems of other workers. They are consequently problems with which the Negro cannot cope successfully without the coöperation of his white fellow workers. Yet ever since the rise to power of the American Federation of Labor both sides have raised obstacles to the consummation of such coöperation. Of all these obstacles none probably has been greater than the narrow and exclusive craft structure and opportunist philosophy of American trade unionism. . . .

Although the Negro is but one of the victims of American craft unionism, he is a victim upon whom the burden falls with special weight, for his peculiar situation in American society makes it particularly difficult for him to cross craft barriers. To the white trade unionist the Negro is not merely an outsider trying to get into the union, but a social and racial inferior trying to force the white man to associate with him as an equal. And the Negro knows that the white worker wants to keep him out of the union not merely as a potential competitor but as a member of a race which must not be permitted to rise to the white man's level. For three hundred years the Negro has been kept in a position of social and economic inferiority, and white organized labor, dominated by the hierarchy of the skilled crafts, has no desire to see him emerge from that condition.

The educated leaders of the Negro community see only the racial aspect of this situation. They see that many employers use Negro labor, thereby giving the black man an opportunity to earn a living which the policy of most white trade unionists would deny him. They see white philanthropists and sentimental friends of the black man trying to help him by giving him schools and social-welfare agencies. They are impressed with the stories of the poor folks who become wealthy through thrift and hard work, and with the history of great institutions which sprang from small beginnings. Here, they say, are friends of the Negro who have proved their friendship, and here are ways of success which have been tried and found effective. So the race leaders counsel their people to beware of the white working man and to put their trust in the white upper classes. Labor solidarity to which the white unionist appeals when he needs the black man to serve his selfish ends, or which the radical preaches to increase his tiny following from any possible source is, they say, a very dangerous doctrine. It is far safer to give loyal service to the white man who wants it, and by hard work and saving to amass enough wealth to bring comfort and security.

Negro leadership for the past generation has put its stress on the element of race. Their people's plight, they feel, is the plight of a race. They turn a deaf ear to those who say that the Negro's plight is the plight of the working class in general merely aggravated by certain special features. All of the various schools of Negro thought which have had real influence upon Negro life have had one end in view, the elimination of racial discrimination.

The most intelligent of all this racial leadership, that of the National Association for the Advancement of Colored People, is in this regard fundamentally little different from the rest. It is interested, not mildly but militantly, in civil liberties. It wants to stop lynching and Jim Crowism in all its forms. It demands that the Negro receive decent and equal treatment in all public places and that he be accorded all those constitutional rights, including full suffrage, which certain communities have denied him. If all these disabilities were removed, the N.A.A.C.P., with the exception of a few leaders like Du Bois, would apparently be satisfied with the world as it is. The problems of the Negro worker which are the same as those of the white man are beyond its concern. . . .

Negro administrators of white philanthropy, such as the leaders of the Urban League and the various committees on interracial coöperation scattered throughout the country, have also tried to lift trade-union barriers. They are interested in greater economic opportunity for the colored worker, and they believe that if he can get into the unions he will be able to follow trades which it is almost impossible for him to follow at present. The lifting of trade-union barriers is but one of the methods by which the Urban League and the interracial bodies seek their ends. Their aim is to foster kindly attitudes toward the Negro. Their principal appeal is to employers and the members of the professions. Their efforts to get the Negro into the labor unions have been confined to seeking the coöperation of prominent trade-union officials. Their appeal is an appeal by Negro leaders to the white upper class. It makes no attempt to reach the white or black rank and file.

Historically the most potent influence in the black community has been the evangelical church.

However, the absorption of the Negro into northern industry is gradually shaking the church's hold and a new philosophy, more in keeping with the dominant thought of the white world is rising in its place. Like the philosophy of the militant National Association for the Advancement of Colored People and that of the conciliatory interracial movement, this philosophy is decidedly in-

dividualistic and middle class in outlook. It has its roots in the doctrines of Booker T. Washington and the Hampton and Tuskegee schools, which preach the gospel of salvation through thrift, enterprise, and industrial efficiency. Its flower is the National Negro Business League whose purpose is the encouragement and promotion of business within the race so that eventually an independent petty black capitalism will rise within the limits of white society. . . .

But granted that all seemingly insurmountable difficulties could be overcome it is still hard to see what good this independent economy would do the great majority of Negro workers. The experiences of immigrants working for employers of their own race or nationality would hardly encourage one to believe that Negro workers would receive any more consideration at the hands of Negro employers than at the hands of white. Negro capital at best would offer an escape only to a handful of the abler, shrewder, more enterprising, more unscrupulous, and luckier members of the race. The majority doubtless would still till the soil or work for white employers as they do now.

White capitalists like Rosenwald, Rockefeller, and others, who are the chief supporters of Negro philanthropy, are being implored by the National Negro Business League to underwrite a system of Negro chain stores. The supporters of an independent black economy evidently believe that Negro business enterprise should now take its place alongside of schools, churches, hospitals, day nurseries, Urban Leagues, interracial committees, and Y.M.C.A.'s as a worthy Negro charity. Like the rest, it will strengthen the hold of race separatism and postpone the day of a more thorough understanding between white and black labor.

Such an understanding, in view of both the middle-class and race-conscious attitudes of the Negro leadership and the exclusive craft separatism and job consciousness of the official labor movement, seems remote indeed. The oversanguine radicals see in the Negro's special racial grievances and his new position in industry the

nucleus of a discontented mass movement. But they overlook the fact that the unique social position of the Negro plus the white worker's absence of class consciousness lends force to the separatist preachings of the Negro leaders. It should not be forgotten that the Negro has won his place in industry in the branches in which labor organization has little or no hold and where the white worker's opposition to his employment has consequently carried least weight. Race leaders have not failed to point this out and to drive home the moral that after all the employer is the black man's best friend. And the white trade unionist, using the same facts, points out his moral, that the Negro is an irredeemable scab who breaks the white man's strikes and tears down his hard won standards, and that the unions must exclude him lest he play the traitor in their midst.

A labor movement built upon the principle of working class unity would of course take the Negro into its ranks and fight to raise the general standard. Self-protection alone should dictate such a course. But the white worker, sharing the prejudices of the rest of the white world, balks at the bugaboo of "social equality" and persists in relegating the black laborer to a place of permanent inferiority.

But side by side with all these forces are tendencies in other directions which in time may destroy their potency. Most important is the machine, which is rapidly changing the meaning of skill and obliterating old craft lines. The machine, rather than any concept of working-class unity or industrial brotherhood, will compel the official labor movement to change its structure and policy if it is not to generate into a mere social relic. Ultimately this will probably redound to the Negro's benefit, but during transitional stages technical changes which reduce the personnel will hurt him along with other workers. And where, as on the railroads, the white men are organized and the Negro is not, the unions will seek to protect their members by compelling the employers to save their jobs at the expense of the Negro's. . . .

## THE FARMER

OF THE SOFT SPOTS in the American economy of the nineteen twenties, none gave intelligent observers more concern than the condition of American agriculture. As a result of European crop failures, price rises, and new markets—particularly the domestic one with the extraordinary increases in immigration and urban-

ization—American agriculture had recovered from the depression of 1893-1896 and for the next two decades climbed to new heights of prosperity. The fact is, by 1909-1914 (the five years later used as the so-called parity price and income period by the Agricultural Adjustment Administration), farmers were doing

as well as, or better than, other sectors in the American economy. There were boom times for farming in 1915-1920 because of the great increases demanded by wartime requirements. Agriculturists proceeded to mechanize, improve livestock, and open up at least an additional 50,000,000 acres of hitherto uncultivated land to cereal production. All this was accompanied by an unexampled increase not only in prices but in real estate values.

The bubble was pricked in 1920—and while the greater part of the American economy recovered by 1922 and was enjoying the unprecedented prosperity of the golden nineteen twenties, agriculture remained depressed. By 1929, the farmer was worse off than he had been not only ten years earlier but indeed twenty years earlier. Land values dropped sharply, pushing many farmers into bankruptcy. A single statistical fact illustrates the collapse of agriculture: in terms of the ratio between prices received and prices paid the farm dollar in 1932 was worth only 47 cents.

As Louis M. Hacker in his *American Problems of Today* (New York, 1938) tells the story:

The efficiency of American agriculture was being hampered not only because of declines in gross and relative income. What was more serious was the fact that fixed charges were eating up a larger and larger share of the farmer's earnings so that he was compelled to divert the use of income from the improvement of his techniques to the payment of taxes and interests on mortgages. Total fixed charges absorbed 6 per cent of gross farm income in 1910 and 12 per cent in 1930: this was indeed a heavy price to pay for land ownership.

The inevitable concomitants were foreclosures, sales for tax delinquencies, and a great

rise in tenancy. The reasons for agricultural depression were largely to be found in the decline of world and domestic markets and the opening up of new regions of supply. Europe, now occupying a debtor position, was seeking self-sufficiency. Between 1913 and 1932, Europe, Canada, Argentina, and Australia increased their acreage in major food crops more than 16 percent. The domestic situation was even unhappier. To continue quoting from *American Problems of Today*:

The possibilities of increasing domestic consumption of agricultural goods, in order to take in the slack, were remote. The following factors may be noted: 1. Our population growth was slowing down because of immigration restrictions and birth control. 2. The two decades 1910-1930 witnessed a profound change in dietary habits as Americans shifted from a reliance on grains and beef to a greater use of pork, vegetables, fruits, milk and sugar. . . . 3. Women were dieting and thus eating less calories. 4. Improved methods of heating homes and the growing elimination of the need for hard and back-breaking toil also made it possible for men as well as women to dispense with foods with high caloric contents. 5. Cotton was being replaced by rayons and other chemically produced fabrics. 6. Finally, agriculture itself had become more mechanized and efficient, making it possible to produce more goods and fibers for each dollar of labor and capital expended. In fact, between 1919 and 1929, on a stationary cultivated acreage, the output of American farmers increased more than 20 per cent! There was, therefore, a surplus of farmers in the United States.

Stuard Chase (1888- ), using in considerable part the agricultural sections of *Recent Economic Changes*, tells of other aspects of the farmer's plight in his *Prosperity, Fact or Myth* (New York, 1929). This is the selection reprinted here and it is published by permission of Bonibooks.

## *Prosperity, Fact or Myth*

BY STUART CHASE

### CHAPTER VII: THE SHARE OF THE FARMER

. . . BUT TO USE the simplification for the American farmer is too utterly incongruous. He does not

operate in masses; geographically it is impossible, temperamentally he hates the thought of it. There is no such thing as the American farmer or any semblance of such a thing. There are about 6 mil-

lion individuals<sup>1</sup> sprawled across the country from the potato fields of Aroostook county in Maine to the corner where the icicle of Lower California begins to drop off the continent. With their families they comprise nearly 30 million persons. They range from a happy shiftless negro tenant hoeing an acre of poor corn field in Mississippi to Mr. Campbell with his 80,000 acre, 100 per cent mechanized wheat farm, in Montana. Both are "Mr. American Farmer," but the mind balks at treating them as a unit. . . .

The War encouraged huge exports of American food-stuffs. We fed millions of European peasants who had left their fields for the trenches. Prices went up, acreage increased, the tractor became popular, efficiency was widely introduced. At the close of hostilities, American agriculture was in an exceedingly prosperous condition, relatively speaking. The hill billies of Kentucky were still cultivating their rocks, but farmers on negotiable land were doing well the country over. Prices had been pegged for them, land values were soaring, credit was readily obtainable. The whole economic structure of agriculture had been given a glorious kick upstairs.

Exports as we have seen held up well in 1919, and fairly well in 1920. In 1921, Europe suddenly stopped buying. Farm products shipped abroad tumbled \$1,300,000,000 in the year. Wholesale prices collapsed. Land values exploded like pricked balloons. Unnumbered farmers who had been thinking of Florida, California and a new sedan, found their thoughts concentrated on mortgage interest. Their prosperity fell like a meteor into the sea. . . . And after 9 long years, the hiss of its extinguishment is still in their ears.

The following figures from *Recent Economic Changes* tell the sad story more effectively than any prose, however purple.

## INDEX NUMBERS

	Prices Received for Farm Products	Prices Paid by Farmers for their Supplies	Wages of Hired Farm Labor	Taxes on Farm Property
1914	100	100	100	100
1918	200	178	176	118
1919	209	205	206	130
1920	205	206	239	155
1921	116	156	150	217
1922	124	152	146	232

<sup>1</sup> Farmers by tenure, 1925: Full owners, 3,313,000; part owners, 555,000; managers, 41,000; cash tenants, 393,000; other tenants, 2,069,000. Total, 6,371,000. In addition there were, in 1925, 3,085,000 farm laborers.

1923	135	153	166	246
1924	134	154	166	249
1925	147	159	168	250
1926	136	156	171	253
1927	131	154	170	258

The chapter might well end here. There is really very little more to say. Where farmers were getting a dollar for their corn or wheat or cotton in 1914, they were getting more than \$2 in 1919 and 1920. Then the whole structure collapsed to \$1.16 in 1921—cut almost in half. It has climbed up a little since, but in 1927 it was only \$1.31.

This is bad enough in itself. But worse is to come. Regard the other three columns. The prices which farmers paid for their clothing, hardware and other supplies had also doubled by 1920, and also tobogganed in 1921. But instead of going down to 116, they only went to 156—where they have more or less remained, *far above the level* of prices for farm products. American agriculture has thus been caught in the famous "scissors" which the Russians talk about. It must pay relatively more for what it buys than it receives for what it sells. The wider the jaws, the more it squirms. In 1927 the jaws were 23 painful points apart. In the last two years they have narrowed a little, but they are still wide enough to make the pain sufficiently intense.

The same thing happened in respect to the wages of the hired man, except that the scissors are even wider—39 points in 1927, and still widening. This has helped hired men a little but not the farmers who hire them. In taxes the situation is even more deplorable. Instead of dropping in 1921, taxes continued to climb. By 1927 they were no less than 127 points above farm product prices! Again the motor car makes its bow on the prosperity stage, but this time upside down. The chief reason for higher farm taxes lies in highway construction in rural areas. This has made contractors and automobile manufacturers prosperous but farmers have paid the freight. . . . Figures for several counties in Michigan show that in the last 7 years taxes have absorbed 90 per cent of the net return to farm owners. Other studies indicate that an absorption of one-third to two-thirds the net return is common.

This woeful burden operates to depress land values. For the last century the value of farm lands had been marching steadily upward. Farmers came to believe that a mounting curve was inevitable—something as dependable as a mounting thermometer in the spring. They cannot adjust themselves to a sagging curve. But according to Mr. Edwin G. Nourse in *Recent Economic Changes* the end

has come—1920 in his opinion registered the peak, nationally speaking. . . . That it certainly registered a steep temporary peak his figures make only too plain.

## INDEX NUMBER OF FARM LAND VALUES

	1913	1920	1928
Illinois	100	160	96
Iowa	100	213	117
North Dakota	100	145	99
Kansas	100	151	113
South Carolina	100	230	110
Texas	100	174	139
California	100	167	161
Connecticut	100	137	139

. . . Mr. Copeland has prepared a profit and loss account for all American farms for the year ending June 30, 1927. It is a pity to kick a man when he is down, and to continue reciting the woes of agriculture may seem unnecessarily cruel. As an accountant, however, I cannot forbear to append his beautiful table. It must have taken months of arduous computation.

Gross value of agricultural production <sup>a</sup>	\$12,127,000,000
Payments to other industrial groups	3,697,000,000
	\$8,430,000,000
Wages paid hired labor	\$1,291,000,000
Rents paid—net	1,267,000,000
Interest paid	260,000,000
Loss due to fall in land values	2,160,000,000
	4,978,000,000
Net return to owners	\$3,452,000,000
Interest on market value of equity	\$1,759,000,000
Charge for owner's labor @ \$540 per year	3,410,000,000
"Normal profit"	5,169,000,000
Deficit of actual profit	\$1,717,000,000

<sup>a</sup> Including estimate for food grown and consumed on farm.

One final blow and I am done. Mr. Mitchell believes that the best single index of the lowly position of agriculture is in the percentage of farm per capita income, to the per capita income of the total population. In 1919, the average farm dweller was receiving 57 per cent as much income as the average American. In 1921, the ratio dropped to 34 per cent. Now it has climbed to about 40 per cent—and so still far short of 1919. Relative to the rest of us, farmers have lost 17 points in the last 10 years.

In the face of this depressing testimony it is pertinent to inquire how farmers continue to exist

at all. As a matter of fact, many of them have ceased to exist—as farmers. Nearly a million (net) left their homesteads for the city between 1920 and 1927. But 6 million still remain. Why? Well, for two reasons.

In the first place, . . . we have been talking mainly about agriculture as a whole, which is to say the average farmer. He is non-existent. Hundreds of thousands of individual farmers, the country over, have made ends meet, and thousands have prospered. Soil, crop demand, export opportunities, mechanization, local conditions, differ widely. Individual abilities differ widely. Here and there agriculture continues to pay well.

Secondly, and far more important, for agriculture to show a profit and loss account in red figures may be sad, even tragic, but it is not evidence of extermination. *Farming is not a business*—or, more properly, not *yet* a business. A corporation consistently in the red closes its doors and goes into the hands of a receiver. Without the life-giving margin of credits over debits, it shortly ceases to exist. It is a child of the money and credit system, and the penalty of breaking the rules of that system is death. Not so the farmer. . . . He is carrying on a job far older than the money and credit system. He is handicapped seriously by its rules, but in a pinch he can still defy them. No penalty of sudden extermination hangs over him. If his books do not balance, if his debits exceed his credits, he can throw his books out of the window and go out and pick a mess of peas, or milk the cow. He has a roof over his head, food in his fields, fuel in the wood lot. He can stand a financial siege if he must. The banker holding his mortgage may evict him and a few of his neighbors if interest is not paid, but he cannot evict a whole country-side. If times are generally bad, the banker may whistle for his money—and in the end go bankrupt himself. . . .

American farmers as a class have had no share in American prosperity. They have bought some of the outward symbols, but their basic condition has improved but slightly since the crash of 1921. For the poor land farmers, it has not improved at all.

The share of agriculture has been perhaps sufficiently established, but curiosity drives us on to inquire *why* the farmers are worse off than in 1920, while the rest of us are in terms of money income, at least, better off. Why did our curve go up, and theirs go down? What made the scissors open wider?

For one thing, as the scissors figure suggests, our changing standards have tended to depress the farmers. The nation is eating lighter foods, wear-

ing lighter clothing. Fruit and vegetable farmers have benefited somewhat (the trouble is the new demand has been frequently overestimated, resulting in excessive acreage) but cotton, grain, sheep and cattle raisers have suffered. Clothing demand has shifted to silk and rayon—good for Chinamen and wood pulp manufacturers, not for farmers. Nor is much in the way of agricultural raw materials to be found in automobiles, gasoline, radios, sporting goods, moving pictures, travel, college education and tabloids—all great items in the new standard of living.

Higher wages in industry have forced farmers to compete with the factory for labor, and thus raised somewhat the wages of the hired men—as we have already noted. Also, as we have seen, the taxes inspired by the motor car have been a tremendous burden.

The collapse of the European market in 1921—a market which has never really come back—was the inciting cause of the whole agricultural toboggan slide. Meanwhile Canada, the Argentine, and Australasia have been putting an ever greater volume of agricultural products on the world market to the detriment of America. Canadian wheat has jumped from 52 million bushels in 1900 to 550 millions in 1928; Argentine from 78 millions to 239 in the same period; Australasian from 49 to 119 million bushels. Argentine beef exports have increased from 54 million pounds in 1900 to 2 billion pounds to-day.

Finally, and perhaps most important of all from any long-range view, the machine has enormously distressed most farmers. It has made a few rich, but thrown agriculture as a whole completely out of step, and disrupted its time-honored rhythms. Tractors have eliminated 6 million horses and mules from farms in the last 13 years. A tractor eats gasoline; horses eat oats and hay. Some 18 million acres of hay and grain lands are no longer needed, to the increasing dismay of hay and grain farmers. Worse, the old crop rotation of corn one year, oats the next, meadow land the third, goes into the discard, breaking up an old and admirable economy.

Agriculture has always suffered from over-production. Machines increase the agony. They get more of a crop out of a given acre. Unless acres decline, the market inevitably will be saturated. Acres, alas, have not declined appreciably. The 19 principal crops covered 351 million acres in 1919 and 349 million acres in 1927. While a million farms were being abandoned during this period the "mass" of crop production, taken as 100 in 1919, grew to 106 in 1927. Workers are fewer,

farms are larger, production is greater. As in the factory, output per man on the farm is increasing, though at a far more leisurely pace. The large output tends to keep prices low. Thus the gain in efficiency has not benefited most farmers. . . .

Let us look a little more carefully into the fundamental incompatibility of the farm and business. To begin with farmers are less mobile than industrial workers; they do not respond readily to shifts in demand, or to technical improvements. In the second place, the installation of a new machine requires first the approval or vote of the individual farmer, and second the individual financing thereof. How far would the machine age have progressed if factory workers had voted on each new loom or lathe, and then purchased it on their own credit? Somewhere higher up a boss decided on the new machine, and his board of directors found him the money. The worker either took it or took himself off the premises. Technological progress over the whole field of agriculture must be not only a slow process, but at some points—such as maximum efficient acreage per machine—an impossible one. Only a brand-new kind of centralized, coordinated control can really domesticate the machine on the farm. The half-way measures—a mechanized farm here and there—which are now in process, have no discernible end except more muddle. The Texas cotton growers have a temporary advantage, but I predict that it will not last. Two cultures, fundamentally at odds, are trying to live in the same house.

The business farmer, with large acreage and complete mechanization, brings down costs and makes a fair return on his investment. Good. Then what happens? The little farmers, hearing of the profits, sow their fields with the same crop. Squatters take up land and sow the same crop. Prices drop. Both big and little men are soon in the red. But the big man is likely to suffer more in the end. He has heavy fixed charges to meet on a large, depreciating investment. Under individual ownership and operation, crop surpluses have been and always will be unpredictable. Nobody has yet found a way to control rain, frost, hail and wind. This is a sufficiently risky situation for a centrally planned production system; it is altogether too risky for large blocks of private capital to flirt with indefinitely. A report of the United States Chamber of Commerce made in the summer of 1929, finds that 74 large farms averaging 12,000 acres, in 28 states, are neither more nor less successful than neighboring small family farms. It concludes that a revolutionary change in agriculture in the direction of quantity production—



with its inevitable by-product of a disastrous effect on the social life of the rural population—is far

from fulfillment. I submit that it never can be fulfilled. The farmer is not a business man. . . .

## THE BOOM

THE DEPRESSED INDUSTRIES and the plight of agriculture were only two evidences of the fact that the boom of the later nineteen twenties was not soundly based. There were others for those willing and clear-sighted enough to read them: but most Americans went on their way unheeding. Certainly, no public officials in high places sought to issue warnings.

Notably in the fields of financing and foreign economic policy—we can see now—were gross errors of judgment committed. The vast expansion of installment selling, particularly as regards the acquisition of durable consumer goods (automobiles, radios, furniture, electrical appliances), involved Americans in a mountain of debt. New devices for corporate financing and manipulation—holding companies, investment trusts, bank securities affiliates—were permitted to appear not only to inflate values but to increase further the debt structure of the nation. The credit inflation finally got out of control as a result of the orgy of stock-market speculation in the second half of the nineteen twenties. Besides, we poured vast sums abroad, frequently into unsound investments. And as we became a creditor nation, at the same time we raised even higher the barriers against foreign imports—in the Emergency Tariff of 1921, the Fordney-McCumber Tariff of 1922, and the Hawley-Smoot Tariff of 1930. The rest of the world might buy from us and we were prepared to finance such purchases; but we were unwilling to buy from the rest of the world. Certainly this could not go on forever; by the end of 1929, we were ready to see why.

In the selections that follow, some of the financial aspects of the boom are presented. During the nineteen twenties, Edwin R. A. Seligman (1861–1939), professor of economics at Columbia University, undertook to super-

vise a study of installment selling (principally in relation to the automobile industry) which resulted in two large volumes, *The Economics of Installment Selling* (New York, 1927). Seligman regards the growth of installment selling as a new departure in economics, a revolution hardly inferior to the Industrial Revolution itself. Though earlier phases of consumption credit may have been marked by abuses, modern installment selling falls into another category because it is concerned with durable goods. After considering the process of installment selling as it affects manufacturer, dealer, and financial intermediary—the finance company—the study ends on a note of approval. Installment credit is the latest in history's many methods of financing consumption beyond the consumer's immediate ability to pay. Though it has some dangers, installment credit does not carry with it the threat of inflation. The "inveterate prejudice" against consumption credit is a relic of an earlier time when "luxuries" were only for a small, high-income group.

After the event—that is, in 1933–1934—the Senate Banking and Finance Committee investigated some of the more unsavory aspects of financial promotion and manipulation. It hired Ferdinand Pecora (1882– ), Italian-born New York lawyer and Wilsonian Democrat, to act as its counsel; his keen probing exposed many weaknesses and led to the formulation of a sound regulatory policy. The Securities and Exchange Commission was one of the results of this inquiry. Later, Pecora summarized some of his findings in his *Wall Street under Oath* (New York, 1939). Pecora looked into the operations of holding companies, investment trusts, bank securities affiliates, personal corporations and the like; he paid particular attention to the promotion of foreign



bond and stock issues in the United States. And, in all cases, he found a lack of responsibility on the part of the issuing bankers and houses and a betrayal of the trust of the buying public.

Frederick L. Allen (1890- ), editor of *Harper's*, tells the story of the amazing Big Bull Market in his lively description of the golden nineteen twenties which he called *Only*

*Yesterday* (1931). What emerges from his narrative—as far as the student of economics and public affairs is concerned—is the complete helplessness of the Federal Reserve Board to check the orgy of speculation and to control the financial mechanism of the nation.

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## *Economics of Installment Selling*

BY EDWIN R. A. SELIGMAN

### CHAPTER II. MODERN INSTALLMENT SELLING

. . . THE PRODIGIOUS INCREASE in production and the lowering of prices led to continually newer classes of users. With this change came the need of some alteration in the methods of sales and the disposition of the product. In the older days, when the automobile was an article of luxury and bought only by the very wealthy, cash was virtually the only method available or desirable. But when the would-be purchasers came to be predominantly of the middle and lower middle class, and when it became more and more customary for the farmer and even the more prosperous wage-earner to desire a motor car, an opportunity arose to introduce some method to enable purchase on the part of those who had no great stock of accumulated savings or who, at all events, would find it inconvenient to pay in cash. The ordinary man of modest means who had learned how to construct his home through the building and loan associations, and who had had a more or less fortunate experience in buying the necessary furniture for his home through the instalment method, regarded with favor this way of adding to his possessions what he now considered only next in importance to his house and his furniture.

There was, however, another reason for the development of the new sales method—a reason connected with the dealer rather than with the consumer. The automobile business was at the outset a highly seasonal business. Especially in the early days before the advent of the great popularity of the closed car, the automobile sales were massed in the early spring and summer. With the gradual development of the volume of sales, the manufacturers began to realize what has long been a commonplace in economic theory and what has been the lesson of experience in business practice, that the advantages of mass production, which would

render possible a lowering of the price and a capture of the market, were more or less dependent upon an even and continuous output. It is obvious that where seasonal production of any commodity is marked, the non-utilization of the plant and the laying-off of workmen conspire to increase costs and to interpose difficulties in the successful prosecution of the enterprise.

If now the distributors or wholesale dealers in the automobiles found, as was increasingly true, that the retail dealers were able to dispose of their cars only in certain months of the year, the problem of what to do with the accumulated stock became a serious one. If the demand on the part of the dealers was essentially seasonal, the demand of the distributors would become correspondingly seasonal, and the manufacturers would be confronted by the problem of securing an even flow of their output. For the individual dealers to purchase cars and to store them in anticipation of the demand was out of the question; their capital was inadequate. For the distributors to step into the breach and to pay cash for large quantities of automobiles which they would have had to put in storage would have meant useless expenditures for storage facilities. A continuance of the old system, therefore, implied a rather rigid limitation on the possibilities of output. What was more natural, then, than that there should occur to some ingenious minds the thought that if a method could be devised for replacing the system of cash sales, the problem would be solved? If the distributors could be permitted to pay for the accumulating stock of automobiles only as they periodically disposed of them, the difficulties of the situation would be largely overcome.

In this way, the two converging streams of influence, namely, the desire of the automobile user to be provided with a somewhat easier method of payment, and the interests of the automobile man-

ufacturer to secure a larger as well as an even, uninterrupted flow of output, conspired to bring about the introduction of the instalment method.

Since the origin of instalment sales in automobiles is due to these two reasons, it becomes necessary to explain somewhat more in detail the influence of each.

So far as the consumer is concerned, cash was the well-nigh universal rule up to 1910. Of course, here and there isolated instances were to be found, as in the sale of everything else, where the dealer made, largely for personal reasons, some credit concession to purchasers. But these instances were sporadic. With the growth in the number of automobiles, and in the desires of a continually growing group of more or less modest purchasers to secure automobiles, the custom arose of buying used instead of new cars—a custom strengthened by certain factors on the supply side as well. With the increase in the used-car business, the pressure upon the dealers to make some concessions to the buyer became stronger. From the year 1910 on, we find such concessions growing, especially on the Pacific Coast, where the climate rendered possible the utilization of automobiles for a considerably more protracted period than in the rest of the country, and where the good roads first made their appearance. Within the next two or three years, the system of making concessions in the way of time payments became quite common, and it had in the meantime been applied to new cars as well. Although the methods differed considerably from dealer to dealer, and although the terms were even more heterogeneous, the purchasing public was gradually accustoming itself to pay for the cars, whether new or used, in successive instalments, chiefly in monthly payments.

The problem now arose as to how the dealer could contrive to pay cash to the manufacturer for the cars which he was now beginning to sell on instalments. He might indeed, and did in fact at first, turn to his local bank and endeavor to discount some of the notes turned over to him by the purchasers. But difficulties soon disclosed themselves. The dealer might not have been of unimpeachable credit or in possession of a credit rating such as that to which the local bank had been accustomed; and even where the dealer's own credit was good, he had in most cases no organization adequate to guarantee the solvency of the customer and therefore the standing of the notes turned in. Moreover, as many of these purchasers' notes ran for a considerable number of months, this paper was essentially lacking in the element of liquidity which the banks were accustomed to demand. Above all, there emerged the problem of

collecting the unpaid instalments; and the local bank was often both unable and unwilling to institute a new and expensive department to oversee the delinquent purchasers. The relations between the dealer and the purchaser, therefore, inevitably called for some form of credit mechanism, adequate to this new method of instalment selling.

More important, naturally, was the pressure brought to bear by the arrangements between the distributor and the manufacturer. Here, also, up to this period, it had been customary to sell automobiles strictly for cash, with the exception of isolated cases, as in all similar businesses, where the manufacturer made concessions to particular dealers and carried part of the stock on an open account during the slack months of the year. Such examples were, however, uncommon. But now, with the increasing pressure exerted upon the distributors by the manufacturers, the former realized that their capital was not sufficient. In an industry where so long a time elapses between the beginning and the end of the productive process, that is, between the purchase of the raw material and the final disposition of the finished product, the question of delay in payment becomes of prime importance. Even in an industry with a fairly large capital, it becomes embarrassing to have a large part of the funds tied up. If thousands of cars are to be manufactured and then indefinitely stored until called for by the seasonal demand, a decided limit is set to the output. Neither the distributor nor the manufacturer could secure much help from the local bank, partly for reasons explained above and partly because of the fact that, if the banks were to be adequately remunerated for this new service, they would have to make charges which would probably bring them into conflict with the usury laws in the various states. Furthermore, laws restricting the amount of loans to be made to any one individual frequently resulted in a situation where the dealer could not obtain adequate financing accommodations. The manufacturer not only needed his money at once, but desired a larger, as well as an even and continuous, market for his product; the distributor, unless he was to dissipate his gross earnings in storage expenses and other payments, was under pressure to find buyers for the surplus cars. Something else was needed not only to render liquid the frozen credits which were thus being engendered on all sides, but also to impart a degree of reasonable safety to the new sales method.

Thus from all the parties to the transaction, manufacturer, distributor, dealer and consumer, there now came a demand for machinery which would render possible a greater volume of trans-

actions. The solution was found in the creation of the so-called credit companies or finance corporations.

#### CHAPTER XV. CONCLUSIONS

We have come to the end of a long discussion. We have seen that while not a little light can be thrown upon some of the problems of instalment selling by an examination of the facts, there remain not a few points where a judgment rests for the present upon general economic reasoning. Let us attempt to restate here some of our principal conclusions.

Instalment selling in the sense of making a final liquidation through the method of successive fractional payments, is both old and new. It is old in that it has been used in both public and private transactions from the beginning of recorded history. It is new only in the sense that it has been applied on a large scale in recent years to certain more durable consumption goods. To all intents and purposes, it has become a problem of the automobile inasmuch as so large a part of all instalment selling is concerned with the automobile.

We have traced the origin and history of modern instalment credit, and have described in some detail the methods employed in so far as they affect the purchaser, the dealer, the manufacturer, the finance company and the investing public.

We have also sought to give more reliable estimates as to the extent of instalment selling and of outstanding instalment paper. Our conclusions were that many of the existing estimates are grossly exaggerated, and that instalment sales, in the case of the durable consumption goods to which the system is primarily applied, amounted at the end of 1926 to about four and a half billions of dollars out of total retail sales of about thirty-eight billions; and that the total of outstanding instalment paper was about two billions.

We proceeded next to point out that most of the prevalent opinions on instalment credit are the more or less unconscious reflections of prejudice or prepossessions as explained by the self-interest of the individual; and that scarcely a single one of the judgments rested upon either a satisfactory factual basis or an adequate economic analysis.

In our analysis of the situation it was necessary first to note that, inasmuch as instalment credit is a part of consumption credit, the alleged contrast between production and consumption needed a more careful study. This study brought us to the conclusion that the utilization of wealth might be either productive, neutral, wasteful or destructive. Instalment credit, therefore, in the first place would have to be envisaged from the point of view

as to whether articles to which it is applied represent a productive or even a neutral utilization. The ordinary charge brought against instalment credit on the ground that there is something illegitimate in the idea of granting credit on consumption goods was seen to be destitute of economic foundation.

Employing the term "consumption credit" in the common acceptance, we traced the development of credit in general and showed how each great change in economic conditions brought with it the evolution of a new form of credit. Each successive form was at first deprecated, then coldly welcomed, and in the end cordially accepted. Instalment credit represents the latest stage of credit.

Inasmuch as instalment credit is a part of consumption credit, we undertook in the next place to ascertain the general modern tendencies of consumption credit, irrespective of whether or not it is liquidated in lump-sum payments. We found that the growth of consumption credit was affected by conditions which differed not only according to the section of the country, but according to the population of the town and the size of the establishment; and that consumption credit was far more successful under certain of these conditions than under others. While we found it difficult to secure an exact verification of the statement, we came to the conclusion that instalment selling denoted a substantial addition to the total amount of credit rather than a change in the proportions in the various forms assumed by consumption credit.

In our endeavor to ascertain the exact points in which instalment credit differed from the other forms of consumption credit, we saw that there were certain differences ascribable to the commodities themselves, but still more significant differences in the conditions under which the credit is granted. The essential point here we found to consist in the character of the terms on which instalment credit is offered, and in the nature of the security for the grant of credit. In other words, we learned that perhaps the most serious problems of instalment credit clustered around the facts of delinquencies and defaults, with the consequent necessity of repossession. It was therefore to a study of repossessions that we devoted special attention.

In addition to the common criticism that instalment credit is illegitimate because it applies to consumers' goods, we noted the almost equally common objection against instalment credit on the ground that it is granted for the use of luxuries. This led us to a study of the contrast between luxuries and necessities. As a result of our analysis,

we were led to emphasize the connection between the so-called luxuries and the rising standard of life in the mass of the community. We came to the conclusion that while the force of the old objections against certain forms of senseless and extravagant luxury on ethical grounds remained unimpaired, attention ought primarily to be directed to the validity of the economic argument which explains the transition from luxuries to necessities.

Making a particular application of the above analysis, we pointed out that the automobile must be regarded neither as a luxury nor as a type of foolish and wasteful consumption; but that, on the contrary, the advent of the automobile has marked a revolution in economic and social life which is comparable to that produced by the introduction of the railway; and that, in the one case as in the other, we must weigh up certain resultant evils with the acknowledged benefits; with the conclusion that it is open to little doubt as to where the balance of advantages lies.

In the final part of our discussion, we took up some of the problems connected with the special effects of instalment selling. So far as concerns the consumer, we pointed out that the real problem consists in the contrast between present and future satisfactions, and that a more significant distinction than the one ordinarily drawn between consumers' goods and producers' goods is the distinction that ought to be made between goods that are paid for before or after utilization. The essential service of instalment selling was found to be the putting of durable goods on a par with ephemeral goods, and the rendering it possible immediately to place in the hands of the consumer worth-while commodities which it would otherwise be impossible for him to acquire. We discussed in the next place the question as to whether consumers' judgments are irrational, and found that we must here distinguish not only as among various commodities, but also as among various income classes. The lower we descend in the scale both of income and of durability of goods, the greater we found to be the chance of irrationality and abuse. On the contrary, the higher we ascend in the scale of the class and in the nature of the productive utilization offered by the services of the commodity, the smaller is the likelihood of irrational judgment on the part of the consumer. In such cases we found that instalment selling has a distinct tendency to correct in the process of time any possible distortion of judgment. Finally, with reference to the effect of instalment credit on savings, our analysis led us to the conclusion that instalment credit not only tends on the whole to strengthen the motives

which induce an individual to save, but also tends to increase his capacity to do so. Instalment credit, in short, if applied to the proper articles and under the proper conditions, may promote not slavery but liberation.

Taking up next the effects of instalment credit on business conditions, we attempted to analyze its influence on demand. Here we came to the conclusion that instalment selling, instead of simply advancing the time when demand becomes effective, really leads to an increase of purchasing power. This is due not so much to the consideration that there is a correlation between output and demand, as to the undoubted fact that instalment credit puts goods of potential productive utilization at the disposal of the consumer at an earlier period than would otherwise be practicable. As over against this conclusion, we studied next the problem of costs or finance charges; and while we learned that there were still many abuses to be noted, we saw that the general tendency of the movement is in the direction of eliminating abuses. We thus arrived at the conclusion that while instalment selling undoubtedly increases the cost of the product, this disadvantage is probably on the whole outweighed by the corresponding advantages.

Coming next to the influence of instalment credit upon production, the result of our analysis was that instalment selling tends in part at least to a stabilization and regularity of output but, above all, because of the device of fractional payments, to an actual increase and acceleration of production.

We took up finally the effects of instalment selling on the credit structure. Here we found indeed that there are special risks connected with instalment credit, and that these center about repossessions and used-car problems. This led us to a comparison between the recourse and the non-recourse systems in the automobile business, with the conclusion that the weight of argument is distinctly in favor of the recourse system. We studied next the connection between instalment credit and business depressions; and, as a result of a detailed investigation into the conditions produced by the anthracite coal strike, we concluded that the dangerous effects of instalment selling on the credit structure have been exaggerated, and that, although the facts are as yet inadequate to furnish a foundation for definite statement, instalment credit under proper conditions is probably not open to the charges so often preferred against it in this respect.

Summing up the entire matter, we should say that instalment selling, like every new institution,

is subject to the perils of novelty. It has engendered new devices and has created a new technique, but it has undoubtedly come to stay. Some abuses and perils which it were short-sighted to deny have crept in. What is needed is to apply to each particular case some of the results of the analysis which we have attempted to present. As the years roll by, experience will teach us to what classes of commodities and to what strata of society instalment selling is economically applicable. In the course of time outworn methods will be discarded and new abuses will undoubtedly appear. Is it not the part of wisdom to separate the chaff from the grain, to be on our guard against

the obvious dangers, and to eliminate one by one the improper practices until, precisely as in the case of our banking structure, we may be able to establish fairly definite and generally accepted standards for distinguishing the sound from the unsound, the real from the specious? When instalment selling comes to be measured by these criteria, we may expect to learn that the innocuous and the salutary must not be confounded with the inappropriate and the regrettable, and that, in its ultimate and refined forms, instalment credit will be recognized as constituting a significant and valuable contribution to the modern economy.

## *Wall Street under Oath*

BY FERDINAND PECORA

### V. THE PATH OF ERROR

. . . TO REACH a point where it more than rivalled J. P. Morgan and Company and Kuhn, Loeb and Company in the origination of securities, and, in addition, to build up a world-wide sales organization that sold many millions of shares annually directly to the public, might have seemed enough to satisfy anyone's lust for expansion. But the National City did not stop in its course even at this point. Finally, it must have dawned on Mr. Mitchell and his associates that after all the true purpose of the Company was neither to make bonds, nor to make sales of bonds, but to make money. And here, ready to hand, was the New York Stock Exchange, the very best place in the world to serve such an ambition. What if it were rather an unprecedented and forbidden thing for a national bank to be "in the market," to gamble, and to manipulate, like any fevered Wall Street speculator? It was not, in legal technicality, the "Bank" that was speculating, it was the "Company."

The development of the National City was, in this respect, a logical progression. Step by step, the affiliate had led the Bank into stranger and stranger pastures. Originally, when organized in 1911, it was to be used merely to hold certain investments that the Bank legally could not. From this, it expanded into an investment banking "house of issue," manufacturing bonds in imitation of the great private bankers. Under Mr. Mitchell's dynamic rule, it developed its immense machinery for selling those bonds to the general public.

When it went still further, and used this machinery to distribute millions of securities not originated by itself, millions of the same stocks that

were being traded in upon the floor of the Exchange, it already had one foot deep in the market; and its success and profits had become inextricably interwoven with the daily plus and minus signs of the stock quotations on the financial pages. It was only a short step from this, to complete and unrestricted speculation directly on the Exchange.

Thus it came about that in the four months, December, 1928, to March, 1929—a time when Federal Reserve authorities were doing everything in their power to restrain the further growth of the wild speculative excesses of the market—the National City Company was a principal participant in and financed three separate "pools" trading in copper stocks on the Exchange. All three were subsidiaries of Anaconda. One was in Andes Copper, one in Chile copper, and the third in Greene Cananea. In some cases, the National City itself "ran the account"; in others, other members of the group did so. Almost 500,000 shares of these various companies were accumulated in these pool operations. About 115,000 shares were retained as profit. The rest were sold to the public by trading on the Exchange in the usual manner. The National City's share of the profits was \$167,000 in cash, plus about 66,000 shares of Anaconda stock, which, at the quotations then prevailing, were worth approximately \$9,000,000.

The National City, to be sure, ran little risk in taking these "flyers" and making these huge profits. Greene Cananea, for example, was a famous "mystery stock" at the time; its price was rising sensationally—but did this represent real value, or merely manipulation? The National City did not have to guess, for its fellow pool members were none other than John D. Ryan, Chairman of the Board of Anaconda, which controlled Greene

Cananea, and Cornelius Kelley, the President of Anaconda. The fact that this whole operation depended on the use by directors and insiders of their confidential knowledge of their corporation's business for their own personal profit, did not deter them in the least. . . .

One might think that the National City had now finally reached the limit, but there is more to come. Perhaps the most extraordinary of its activities during those frenzied years was the orgy of trading by the Company in the stock of the Bank itself. It is, of course, strictly against the law for a national bank to purchase its own stock. It cannot even lend money on its own stock. Legal technicalities aside, it is obvious that wild advances and recessions in the price at which a bank stock is quoted, cannot fail to affect gravely the stability and reputation of the institution. Of all stocks, bank stocks ought least to be the football of speculation.

Solemnly the National City gave lip service to this doctrine. Its officers went so far in 1928 as to have the stock of the Bank stricken from the New York Stock Exchange, where it had been listed for many years, because they professed to be able to detect microscopic signs of manipulation in its price. This they considered to be "distinctly disadvantageous, and probably at times might even be dangerous." Yet mark what follows: in the next two years, National City Bank stock, which had a par value of \$100, was pushed up and up until it reached dizzy heights. In January, 1928, when it was taken off the Exchange, it sold at \$785. In June, 1928, it stood at \$940; in January, 1929, it climbed to \$1,450; a few months later, it reached the fantastic price of \$2,925 (actually, \$585 per share, after a 5 for 1 split-up). The highest book value ever ascribed to it was only \$70. And the National City, which had removed the stock from the Exchange "to prevent manipulation," was itself the principal trader!

Altogether, in the three-and-a-half-year period ending December 31, 1930, the National City Company sold almost 2,000,000 shares of the stock of its Bank, and even then it had about 100,000 shares left over. In the single year 1929 it sold more than 1,300,000 shares. For the proud privilege of owning these shares, worth \$140,000,000 at their highest book value, the public paid the stupendous sum of \$650,000,000. Most of this inflated value was, of course, wiped out during the years of depression, when National City fell from 585 to 21. Mr. Mitchell himself was a heavy loser—according to his own statement, the heaviest individual loser of all.

The campaign to sell National City Bank stock was carried on by every means available. It was sold at these exorbitant prices by the hundreds of thousands of shares by National City salesmen, stimulated by special premiums. It was sold "over the counter" through regular brokerage houses, with fifteen or twenty of whom the Company maintained direct wires. The Company was by far the largest customer of the "specialist" in this stock, and kept in telephonic touch with him, on busy days, "maybe every three or four minutes." The Company not only accumulated and sold for its own account—at times as many as 30,000 or 40,000 shares in a single day—but it encouraged others to fan the flame, giving, free of charge, an option on 30,000 shares as the basis of operations for a syndicate headed by the well-known brokerage firm of Dominick and Dominick. It was making so much money selling the Bank's stock that it even sold more shares than it owned—i. e., it "went short"—and had to borrow 30,000 shares from Mr. Mitchell's private holdings to cover its sales. Greed and irresponsible banking could go no further. . . .

#### X. "WE COULD HAVE TAKEN ONE HUNDRED PERCENT!"

In your hands or in the writer's hands, a dollar is only a dollar. It can buy a dollar's worth of bread, or a dollar's worth of merchandise, or a dollar's worth of corporate stock. The skilled financier, however, would not go very far in his profession if he could not do better than that. In his hands, a dollar goes a long way: it frequently buys control of ten, or twenty, or even one hundred times as much money as the financier himself invests.

In this chapter, we shall tell the story of one of the most outstanding and spectacular examples of this process encountered during the Senate Investigation: the investment trusts of Dillon, Read and Company . . .

Like J. P. Morgan and Company and Kuhn, Loeb and Company, Dillon, Read and Company were private bankers. They did not, however, take deposits to any considerable extent, but concentrated on the creation and sale of new securities. Here they did a huge quantity of business, issuing nearly four billion dollars of government, municipal and corporate bonds and stocks for the fifteen years following the war. This was more than Kuhn, Loeb and Company, but less than J. P. Morgan and Company.

Since they took no large amount of deposits, Dillon, Read and Company did not have in their control, from this source, any great fund of "other

people's money," as did the Morgans and Kuhn, Loeb. But they contrived a scheme which from their point of view was superior to the bankers' traditional technique. They were able to get control of the public's money, yet simultaneously they avoided the inconvenient necessity of keeping that money payable on demand, as is the way with ordinary deposits.

This new superior technique was an amazingly simple combination of two devices: the "investment trust" and "nonvoting stock," together with some added features of Dillon, Read and Company's own invention.

The first step, taken in 1924, was the organization of a corporation known as the United States and Foreign Securities Corporation. This was to be an investment trust, i.e., a company which invests in securities, just like any private person, but with the asserted advantage of trained management and great capital resources. There were three classes of stock in the new corporation—first preferred, second preferred, and common. There were 250,000 shares of the first-named class, 50,000 shares of the second, and 1,000,000 shares of the common. The "first preferred" stock was so called because it was entitled to receive dividends of six per cent before the other classes of stock received anything, but in the matter of voting rights and control, it was anything but preferred. So long as dividends were regularly paid it could not vote at all, it had not the slightest voice in the management. It was, in short, what is known as "nonvoting stock," one of the devices which Mr. Otto Kahn had picturesquely denounced as "inventions of the devil." Under all ordinary conditions, only the common stock could vote, and therefore whoever controlled the common stock controlled the corporation.

The entire 250,000 shares of "first preferred stock" were sold to the public for \$25,000,000. As an added attraction, the public was also given 250,000 shares of the common stock—one share of common with each share of first preferred. That left unsold the 50,000 shares of second preferred stock, and 750,000 shares of common stock. All of this Dillon, Read and Company bought for \$5,100,000. Thus, although it invested only one fifth as much as the public, Dillon, Read and Company, owning three fourths of the common stock, the only stock that could vote, completely controlled the corporation.

The United States and Foreign Securities Corporation, ably managed and operated during an era of rising stock prices, prospered greatly. By 1928 there was a cash surplus of \$10,000,000. What had the public, who contributed \$25,000,000 of the

corporation's \$30,000,000, gotten out of this prosperity? They had gotten their six per cent dividends on their first preferred stock—and that is all.

True, they also owned 250,000 shares of common stock, but in spite of the \$10,000,000 cash surplus, there had never been any dividend declared on the common stock. To anticipate a little, there never was any dividend on this stock.

What had Dillon, Read and Company realized? In the first place, it had, like the public, been regularly receiving by way of dividends on its second preferred stock, six per cent on the money it had invested. In the second place, it had made about \$340,000 as its share of the bankers' "spread" in the sale of the corporation securities to the public. In the third place, it now had complete control, unhampered by any possibility of withdrawal, not only of the original \$25,000,000 public contribution, but also of the \$10,000,000 cash surplus which had been earned by the use of that money. The Dillon, Read and Company investment, which had originally controlled an additional \$25,000,000, now controlled \$35,000,000. The best part of the whole transaction, moreover, was that Dillon, Read and Company and individual members of that firm still retained practically all their 750,000 shares of common stock; and this common stock, which at the time of its original acquisition had been assigned a nominal value of 20 cents per share and according to Mr. Dillon, "was worth less," with a book value of "a million dollars less than nothing," had risen greatly, eventually going as high as \$72 a share. Hence, an investment of, at the most, a few hundred thousand dollars, had brought in potential profits of thirty to forty million dollars for the bankers. . . .

Even these astonishingly fortunate developments did not satisfy Dillon, Read and Company. There was still that \$10,000,000 cash surplus fairly asking to be put to work. How employ it better than by repeating on a larger scale the same operation that had already worked out so well?

So a second corporation, a second investment trust, was formed. This one was called the United States and *International* Securities Corporation. Like the United States and Foreign Securities Corporation, it had three classes of stock, first preferred, second preferred and common. As in the first corporation, all voting power under ordinary circumstances was exercised by the common stock. As in the first case, too, the public was allowed to buy—this time for \$50,000,000—only the "nonvoting" preferred stock with only a minority of the common stock added in. But there was one salient difference: this time, Dillon, Read and



Company did not have to invest a single dollar of its own. Instead, it was the United States and Foreign Securities Corporation, which, with its \$10,000,000 cash surplus, now put up the money to secure complete control.

There were now two investment corporations—the second with a \$60,000,000 capital, controlled by the first with a \$30,000,000 capital; and the whole \$90,000,000 controlled by Dillon, Read and Company, which had four years before invested \$5,100,000.

Did we say that the organization of this new corporation, bringing with it control of an additional \$50,000,000 of the public's money did not cost Dillon, Read and Company a dollar? It was a gross understatement: Dillon, Read and Company not only did not pay, they were themselves paid—over a million dollars—for their share in the arduous labor of organizing the company and floating its securities.

The following year, 1929, prices went still higher, and some of the members of Dillon, Read and Company thought it an opportune time to let the public share a little of their good fortune. They therefore consented to sell about 75,000 shares of their United States and Foreign common stock, at \$47.50 or better per share, to certain pools organized by Dominick and Dominick, who disposed of it after their own fashion. They also sold another 45,000 shares through Dillon, Read and Company, to the firm's own customers at around \$56 per share. Altogether, for these approximately 120,000 shares (not enough of the original 750,000 to disturb Dillon, Read's control), they received over \$6,800,000. This in itself was over \$1,500,000 more than the whole firm's entire original investment, and it was realized from only

a petty fraction of their total common-stock holdings.

After the stock-market crash in 1929, things did not go so well. The United States and International Securities in particular, sustained large losses amounting at one time to about \$26,000,000. The stock in which Dillon, Read and Company had seen fit to invest the \$10,000,000 cash surplus of the first corporation in 1928 was completely wiped out.

To Senator Couzens, the taking of this \$10,000,000 "out of an investment trust you own, or which you control, rather, its ownership being in the public hands," and putting it "in another investment trust to further augment your own profits," seemed "rotten ethics," and "reprehensible." To Mr. Clarence Dillon this and all the rest of the story seemed perfectly proper even in retrospect. . . .

Mr. Dillon thought in terms of Wall Street usage and legality, and from that point of view he even considered that the public had been treated with rare generosity and fairness. True, the public had contributed five times as much as Dillon, Read and Company to the United States and Foreign Securities Corporation, and had received only one third as much of its common stock in return, but Mr. Dillon pointed out—and who can deny it—there was nothing to stop Dillon, Read and Company from having taken, not only 750,000 shares of this common stock, but the whole 1,000,000. Giving the public any interest at all in these shares, even a minority interest, was a sheer act of grace. In his own words:

We could have taken 100 per cent. We could have taken all that profit. We could have bought all the common stock for \$5,000,000. . . .

## *Only Yesterday*

BY FREDERICK L. ALLEN

### CHAPTER XII. THE BIG BULL MARKET

ONE DAY in February, 1928, an investor asked an astute banker about the wisdom of buying common stocks. The banker shook his head. "Stocks look dangerously high to me," he said. "This bull market has been going on for a long time, and although prices have slipped a bit recently, they might easily slip a good deal more. Business is none too good. Of course if you buy the right stock you'll probably be all right in the long run and you may even make a profit. But if I were you I'd wait awhile and see what happens."

By all the canons of conservative finance the

banker was right. That enormous confidence in Coolidge Prosperity which had lifted the business man to a new preëminence in American life and had persuaded innumerable men and women to gamble their savings away in Florida real estate had also carried the prices of common stocks far upward since 1924, until they had reached what many hard-headed financiers considered alarming levels. Throughout 1927 speculation had been increasing. The amount of money loaned to brokers to carry margin accounts for traders had risen during the year from \$2,818,561,000 to \$3,558,355,000—a huge increase. During the week of December 3, 1927, more shares of stock had changed hands



than in any previous week in the whole history of the New York Stock Exchange. . . .

The speculative fever had been intensified by the action of the Federal Reserve System in lowering the rediscount rate from 4 per cent to  $3\frac{1}{2}$  per cent in August, 1927, and purchasing Government securities in the open market. This action had been taken from the most laudable motives: several of the European nations were having difficulty in stabilizing their currencies, European exchanges were weak, and it seemed to the Reserve authorities that the easing of American money rates might prevent the further accumulation of gold in the United States and thus aid in the recovery of Europe and benefit foreign trade. Furthermore, American business was beginning to lose headway; the lowering of money rates might stimulate it. But the lowering of money rates also stimulated the stock market. The bull party in Wall Street had been still further encouraged by the remarkable solicitude of President Coolidge and Secretary Mellon, who whenever confidence showed signs of waning came out with opportunely reassuring statements which at once sent prices upward again. In January, 1928, the President had actually taken the altogether unprecedented step of publicly stating that he did not consider brokers' loans too high, thus apparently giving White House sponsorship to the very inflation which was worrying the sober minds of the financial community.

While stock prices had been climbing, business activity had been undeniably subsiding. There had been such a marked recession during the latter part of 1927 that by February, 1928, the director of the Charity Organization Society in New York reported that unemployment was more serious than at any time since immediately after the war. During January and February the stock market turned ragged and unsettled, and no wonder—for with prices still near record levels and the future trend of business highly dubious, it was altogether too easy to foresee a time of reckoning ahead.

Anybody who had chosen this moment to predict that the bull market was on the verge of a wild advance which would make all that had gone before seem trifling would have been quite mad—or else inspired with a genius for mass psychology. The banker who advised caution was quite right about financial conditions, and so were the forecasters. But they had not taken account of the boundless commercial romanticism of the American people, inflamed by year after plentiful year of Coolidge Prosperity. For on March 3, 1928 the stock market entered upon its sensational phase.

Let us glance for a moment at the next morning's paper, that arm-breaking load of reading-matter which bore the date of Sunday, March 4, 1928. . . .

General Motors stock, opening at  $139\frac{3}{4}$  on the previous morning, had skyrocketed in two short hours to  $144\frac{1}{4}$ , with a gain of more than five points since the Friday closing. The trading for the day had amounted to not much more than 1,200,000 shares, but nearly a third of it had been in Motors. The speculative spring fever of 1928 had set in. . . .

On Monday General Motors gained  $2\frac{1}{4}$  points more, on Tuesday  $3\frac{1}{2}$ ; there was great excitement as the stock "crossed 150." Other stocks were beginning to be affected by the contagion as day after day the market "made the front page": Steel and Radio and Montgomery Ward were climbing, too. After a pause on Wednesday and Thursday, General Motors astounded everybody on Friday by pushing ahead a cool  $9\frac{1}{4}$  points as the announcement was made that its Managers Securities Company had bought 200,000 shares in the open market for its executives at around 150. And then on Saturday the common stock of the Radio Corporation of America threw General Motors completely into the shade by leaping upward for a net gain of  $12\frac{1}{4}$  points, closing at  $120\frac{1}{2}$ .

What on earth was happening? Wasn't business bad, and credit inflated, and the stock-price level dangerously high? Was the market going crazy? Suppose all these madmen who insisted on buying stocks at advancing prices tried to sell at the same moment! Canny investors, reading of the wild advance in Radio, felt much as did the forecasters of Moody's Investors Service a few days later: the practical question, they said, was "how long the opportunity to sell at the top will remain."

What was actually happening was that a group of powerful speculators with fortunes made in the automobile business and in the grain markets and in the earlier days of the bull market in stocks—men like W. C. Durant and Arthur Cutten and the Fisher Brothers and John J. Raskob—were buying in unparalleled volume. They thought that business was due to come out of its doldrums. They knew that with Ford production delayed, the General Motors Corporation was likely to have a big year. They knew that the Radio Corporation had been consolidating its position and was now ready to make more money than it had ever made before, and that as scientific discovery followed discovery, the future possibilities of the

biggest radio company were exciting. Automobiles and radios—these were the two most characteristic products of the decade of confident mass production, the brightest flowers of Coolidge Prosperity: they held a ready-made appeal to the speculative imagination. The big bull operators knew, too, that thousands of speculators had been selling stocks short in the expectation of a collapse in the market, would continue to sell short, and could be forced to repurchase if prices were driven relentlessly up. And finally, they knew their American public. It could not resist the appeal of a surging market. It had an altogether normal desire to get rich quick, and it was ready to believe anything about the golden future of American business. If stocks started upward the public would buy, no matter what the forecasters said, no matter how obscure was the business prospect.

They were right. The public bought. . . .

And so it went on, day after day and week after week. On March 16th the ticker was thirty-three minutes late and one began to hear people saying that some day there might occur a five-million share day—which seemed almost incredible. On the 20th, Radio jumped 18 points and General Motors 5. On March 26th the record for total volume of trading was smashed again. The new mark lasted just twenty-four hours, for on the 27th—a terrifying day when a storm of unexplained selling struck the market and General Motors dropped abruptly, only to recover on enormous buying—there were 4,790,000 shares traded. The speculative fever was infecting the whole country. Stories of fortunes made overnight were on everybody's lips. One financial commentator reported that his doctor found patients talking about the market to the exclusion of everything else and that his barber was punctuating with the hot towel more than one account of the prospects of Montgomery Ward. Wives were asking their husbands why they were so slow, why they weren't getting in on all this, only to hear that their husbands had bought a hundred shares of American Linseed that very morning. Broker's branch offices were jammed with crowds of men and women watching the shining transparency on which the moving message of the ticker tape was written; whether or not one held so much as a share of stock, there was a thrill in seeing the news of that abrupt break and recovery in General Motors on March 27th run across the field of vision in a long string of quotations:

GM 50.85 (meaning 5,000 shares at 185) 20.80. 50.82. 14.83. 30.85. 20.86. 25.87. 40.88. 30.87. . . .

The Reserve authorities were disturbed. They

had raised the rediscount rate in February from  $3\frac{1}{2}$  to 4 per cent, hoping that if a lowering of the rate in 1927 had encouraged speculation, a corresponding increase would discourage it—and instead they had witnessed a common-stock mania which ran counter to all logic and all economic theory. They raised the rate again in May to  $4\frac{1}{2}$  per cent, but after a brief shudder the market went boiling on. They sold the Government bonds they had accumulated during 1927, and the principal result of their efforts was that the Government-bond market became demoralized. Who would ever have thought the situation would thus get out of hand?

In the latter part of May, 1928, the pace of the bull market slackened. Prices fell off, gained, fell off again. The reckoning, so long expected, appeared at last to be at hand.

It came in June, after several days of declining prices. The Giannini stocks, the speculative favorites of the Pacific coast, suddenly toppled for gigantic losses. On the San Francisco Stock Exchange the shares of the Bank of Italy fell 100 points in a single day (June 11th), Bancitaly fell 86 points, Bank of America 120, and Union Security 80. That same day, on the New York Curb Exchange, Bancitaly dove perpendicularly from 200 to 110, dragging with it to ruin a horde of small speculators who, despite urgent warnings from A. P. Giannini himself that the stock was overvalued, had naïvely believed that it was "going to a thousand." . . .

But had the bull market collapsed? On June 13th it appeared to have regained its balance. On June 14th, the day of Hoover's nomination, it extended its recovery. The promised reckoning had been only partial. Prices still stood well above their February levels. A few thousand traders had been shaken out, a few big fortunes had been lost, a great many pretty paper profits had vanished; but the Big Bull Market was still young. . . .

#### 4

During that "Hoover bull market" of November, 1928, the records made earlier in the year were smashed to flinders. Had brokers once spoken with awe of the possibility of five-million-share days? Five-million-share days were now occurring with monotonous regularity; on November 23rd the volume of trading almost reached seven millions. Had they been amazed at the rising prices of seats on the Stock Exchange? In November a new mark of \$580,000 was set. Had they been disturbed that Radio should sell at such an exorbitant price as 150? Late in November it was

bringing 400. Ten-point gains and new highs for all time were commonplaces now. Montgomery Ward, which the previous spring had been climbing toward 200, touched 439½ on November 30. The copper stocks were skyrocketing; Packard climbed to 145; Wright Aeronautical flew as high as 263. Brokers' loans? Of course they were higher than ever; but this, one was confidently told, was merely a sign of prosperity—a sign that the American people were buying on the part-payment plan a partnership in the future progress of the country. Call money rates? They ranged around 8 and 9 per cent; a little high, perhaps, admitted the bulls, but what was the harm if people chose to pay them? Business was not suffering from high money rates; business was doing better than ever. The new era had arrived, and the abolition of poverty was just around the corner. . . .

The Federal Reserve authorities found themselves in an unhappy predicament. Speculation was clearly absorbing more and more of the surplus funds of the country. The inflation of credit was becoming more and more dangerous. The normal course for the Reserve banks at such a juncture would have been to raise the rediscount rate, thus forcing up the price of money for speculative purposes, rendering speculation less attractive, liquidating speculative loans, and reducing the volume of credit outstanding. But the Reserve banks had already raised the rate (in July) to 5 per cent, and speculation had been affected only momentarily. Apparently speculators were ready to pay any amount for money if only prices kept on climbing. The Reserve authorities had waited patiently for the speculative fever to cure itself and it had only become more violent. Things had now come to such a pass that if they raised the rate still further, they not only ran the risk of bringing about a terrific smash in the market—and of appearing to do so deliberately and wantonly—but also of seriously handicapping business by forcing it to pay a high rate for funds. Furthermore, they feared the further accumulation of gold in the United States and the effect which this might have upon world trade. And the Treasury had a final special concern about interest rates—it had its own financing to do, and Secretary Mellon was naturally not enthusiastic about forcing the Government to pay a fancy rate for money for its own current use. It almost seemed as if there were no way to deflation except through disaster.

The Reserve Board finally met the dilemma by thinking up a new and ingenious scheme. They tried to prevent the reloading of Reserve funds to brokers without raising the rediscount rate.

On February 2, 1929, they issued a statement in

which they said: "The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal Reserve Banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal Reserve Bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans." A little less than a fortnight later the Board wrote to the various Reserve Banks asking them to "prevent as far as possible the diversion of Federal Reserve funds for the purpose of carrying loans based on securities." Meanwhile the Reserve Banks drastically reduced their holdings of securities purchased in the open market. But no increases in rediscount rates were permitted. Again and again, from February on, the directors of the New York Reserve Bank asked Washington for permission to lift the New York rate, and each time the permission was denied. The Board preferred to rely on their new policy. . . .

During the next month or two stocks rose and fell uncertainly, sinking dismally for a time in May, and the level of brokers' loans dipped a little, but no general liquidation took place. Gradually money began to find its way more plentifully into speculative use despite the barriers raised by the Federal Reserve Board. A corporation could easily find plenty of ways to put its surplus cash out on call at 8 or 9 per cent without doing it through a member bank of the Federal Reserve System; corporations were eager to put their funds to such remunerative use; as the increase in loans "for others" showed; and the member banks themselves, realizing this, were showing signs of restiveness. When June came, the advance in prices began once more, almost as if nothing had happened. The Reserve authorities were beaten. . . .

## 6

In September the market reached its ultimate glittering peak. . . .

Stop for a moment to glance at a few of the prices recorded on the overworked ticker on September 3, 1929, the day when the Dow-Jones averages reached their high point for the year; and compare them with the opening prices of March 3, 1928, when, as you may recall, it had seemed as if the bull market had already climbed to a perilous altitude. Here they are, side by side—first the figures for March, 1928; then the figures for September, 1929; and finally the latter figures translated into 1928 terms—or in other words revised to make allowance for intervening split-ups and issues of rights. (Only thus can you properly

judge the extent of the advance during those eighteen confident months.)

	Opening price March 3 1928	High price Sept. 3 1929	Adjusted high price Sept. 3 1929
American Can .....	77	181 $\frac{1}{8}$	181 $\frac{1}{8}$
American Telephone & Telegraph .....	179 $\frac{1}{2}$	304	335 $\frac{5}{8}$
Anaconda Copper .....	54 $\frac{3}{8}$	131 $\frac{1}{2}$	162
General Electric .....	128 $\frac{3}{4}$	396 $\frac{1}{4}$	396 $\frac{1}{4}$
General Motors .....	139 $\frac{3}{4}$	72 $\frac{3}{4}$	181 $\frac{1}{8}$
Montgomery Ward ....	132 $\frac{3}{4}$	137 $\frac{7}{8}$	466 $\frac{1}{2}$
New York Central .....	160 $\frac{1}{2}$	256 $\frac{5}{8}$	256 $\frac{5}{8}$
Radio .....	94 $\frac{1}{2}$	101	505
Union Carbide & Carbon	145	137 $\frac{7}{8}$	413 $\frac{5}{8}$
United States Steel .....	138 $\frac{1}{8}$	261 $\frac{3}{4}$	279 $\frac{1}{8}$
Westinghouse E. & M. ..	91 $\frac{5}{8}$	289 $\frac{7}{8}$	313
Woolworth .....	180 $\frac{3}{4}$	100 $\frac{5}{8}$	251
Electric Bond & Share ..	89 $\frac{3}{4}$	186 $\frac{3}{4}$	203 $\frac{5}{8}$

One thing more: as you look at the high prices recorded on September 3, 1929, remember that on that day few people imagined that the peak had actually been reached. The enormous majority fully expected the Big Bull Market to go on and on.

For the blood of the pioneers still ran in American veins; and if there was no longer something lost behind the ranges, still the habit of seeing visions persisted. What if bright hopes had been

wrecked by the sordid disappointments of 1919, the collapse of Wilsonian idealism, the spread of political cynicism, the slow decay of religious certainty, and the debunking of love? In the Big Bull Market there was compensation. Still the American could spin wonderful dreams—of a romantic day when he would sell his Westinghouse common at a fabulous price and live in a great house and have a fleet of shining cars and loll at ease on the sands of Palm Beach. And when he looked toward the future of his country, he could vision an America set free—not from graft, nor from crime, nor from war, nor from control by Wall Street, nor from irreligion, nor from lust, for the utopias of an earlier day left him for the most part skeptical or indifferent; he visioned an America set free from poverty and toil. He saw a magical order built on the new science and the new prosperity: roads swarming with millions upon millions of automobiles, airplanes darkening the skies, lines of high-tension wire carrying from hilltop to hilltop the power to give life to a thousand labor-saving machines, skyscrapers thrusting above one-time villages, vast cities rising in great geometrical masses of stone and concrete and roaring with perfectly mechanized traffic—and smartly dressed men and women spending, spending, spending with the money they had won by being far-sighted enough to foresee, way back in 1929, what was going to happen.

# THE UNITED STATES AND THE WORLD

## INTERNATIONAL ECONOMIC RELATIONS

BEGINNING about 1915, the United States became a creditor nation—private American investments abroad exceeded the holdings of foreigners in the United States—and the outflow of American capital continued as one of the prime characteristics of the golden nineteen twenties. Julius Klein (1886– ), director of the U.S. Bureau of Foreign and Domestic Commerce during the Hoover administration, tells this story in his *Frontiers of Trade* (New York, 1929). Writing during the boom and as an official of a government committed to high protectionism, Klein remains unperturbed in the face of the dubious character of some of this financing—particularly of foreign government bonds—and of the inability, even through their invisible services, of foreigners to meet the service charges on those debts. American high tariffs checked imports; the result was, interest and dividends owed Americans on overseas investments were not paid for in goods. Those obligations, therefore, were simply added to the long-term credits—in securities and in direct holdings—that Americans were accumulating all over the world. When American bankers and investors were no longer willing or able to finance, or subsidize, our foreign trade in this fashion, American exports dropped sharply and the depression deepened. In 1928, Klein put such American claims on foreigners at ten or eleven billions. By the end of 1930, an official government estimate put them at fifteen billions.

Paul D. Dickens, of the Bureau of Foreign and Domestic Commerce, writing in 1931 in *A New Estimate of American Investments Abroad*, makes a detailed analysis of American holdings by regions and by “direct” and “port-

folio” investments. Dickens defines “direct” investments to include corporate holdings in (1) American-controlled manufacturing and selling organizations, (2) stocks and bonds of foreign-controlled manufacturing and selling corporations, (3) purchasing agencies, (4) petroleum lands and petroleum refining and distribution facilities, (5) mining and smelting properties, (6) public utilities, (7) plantations. “Portfolio” investments are defined to include (1) foreign bonds publicly and privately offered in the United States, (2) the shares of foreign corporations that are owned in the United States, (3) bonds of American subsidiaries of foreign corporations, and of American corporations that lend abroad directly. Dickens says: “Portfolio investments are held primarily by individual investors residing in the United States and by insurance companies, investment trusts, and other financial institutions. The foreign security holdings of industrial and commercial corporations are considered as direct investments.”

And further:

Private long-term American investments in foreign countries at the end of 1930 amounted to between \$14,900,000,000 and \$15,400,000,000 (expressed in range figures because errors in such estimates are unavoidable). Their rapid growth is brought out clearly when the present total is compared with the estimates of investments in 1900 of \$500,000,000 and in 1912 \$1,902,500,000. In the last 18 years this country has increased its holdings abroad by about \$13,268,000,000, or by about \$737,000,000, a year, excluding, of course, the war debts to the United States Treasury and short-term investments.

The distribution of private long-term American investments abroad at the end of 1930, divided geographically and by major types, is estimated as follows:

PRIVATE LONG-TERM AMERICAN INVESTMENTS ABROAD, BY TYPES AND GEOGRAPHIC AREAS, AT END OF 1930  
[In thousands of dollars]

Area	Direct	Portfolio	Total
Canada	2,048,787	1,892,906	3,941,693
Europe	1,468,648	3,460,629	4,929,277
Mexico and Central America	930,843	37,733	968,576
South America	1,631,105	1,410,821	3,041,926
West Indies	1,072,000	161,484	1,233,484
Africa	115,329	2,500	117,829
Asia	419,504	603,445	1,022,949
Oceania	154,594	264,700	419,294
Total	7,840,810	7,834,218	15,675,028
Deduct for international securities movement	.....	630,000	630,000
	7,840,810	7,204,218	15,045,028
Add for insurance company and bank capital	.....	.....	125,000
Estimated foreign investment at the end of 1930	.....	.....	15,170,028

The selection from Julius Klein's *Frontiers of Trade* (New York, 1929) is reprinted by permission of D. Appleton Century Co., Inc.

Though Protection did not become a political issue during the nineteen twenties, three tariff acts were passed, each raising duties to new heights and each evoking widespread protest both from American economists and from foreign countries about to lose their markets. Both groups were ignored by Congress and by administrations which were almost prepared to assume, along with an earlier and more naïve politician, that the tariff was only a local issue.

There can be no question, now, that as a result of tariff barriers the hindrances to normal world trade made the economic lot of Europe during the twenties difficult, and deepened and prolonged the depression of the thirties as the whole world—led by the United States—took the road of economic nationalism.

In the face of almost general disapproval on the part of economists and despite the un-

satisfactory condition of America's balance of international payments, a Republican Congress, not content with the high duties of the Fordney-McCumber Tariff Act, in 1928 sat down to further tariff revision. In 1930, after a year and a half of discussion and with depression already upon us, there was enacted the Hawley-Smoot Tariff Act, incorporating the highest rates in American history. Foreign protests immediately were followed by retaliation from every quarter of the globe: and American goods and services were now confronted not only by heavy import duties but also by import licenses and quotas, exchange controls and closed trading blocs.

Lawrence B. Mann, staff member of the Foreign Policy Association, describes the early reactions to the Tariff Act of 1930 in the selection here reprinted. It appeared as Vol. VI, No. 15 (October 1, 1930) of the Information Service Reports of the Foreign Policy Association and is published by permission.

## *Frontiers of Trade*

BY JULIUS KLEIN

### CHAPTER VIII: AMERICAN INVESTMENTS ABROAD

THE TOTAL of our private loans in foreign countries is at present about thirteen or fourteen billion dollars. In other words, every man, woman and child in the country has a stake of \$120 in these

oversea interests, which is about six times the per capita amount in 1914. This, of course, is exclusive of the eleven billions of war debts owed to our Government. We have heard much in recent years of the transformation of the United States from a debtor to a creditor country, but the ex-

pression of that change in cold figures makes a truly astonishing picture. Just before the war broke out, our investments overseas totaled about two billions, and foreign investments in this country were estimated at about five billions. These foreign holdings here are now about three and a half billions and are gradually climbing as European savings increase and conditions become more stable.

In other words, our international financial balance has undergone a transformation since 1913 from the minus three billions into a plus ten or eleven billions.

But behind those figures there has developed a truly dramatic and immensely significant situation in our international trade balance, one that affects not simply bankers and economists but every industry and trade, indeed every individual in the land. . . .

These private investments of ours now yield annually about \$740,000,000 in interest, which is one of the largest of that important group of *invisible items* which I discussed in the preceding chapter, and which are so vital in the balancing of our international bills. Incidentally, that figure collected by our bankers, without any audible indications of cancellation on their part, is more than three and a half times the \$209,000,000 paid to our Government by European exchequers as interest on the much-discussed war debts. . . .

In the first place, it is obvious that the fourteen billions now invested abroad have been accumulating there for some years. Furthermore, a foreign loan is a credit, not actual currency shipped abroad. It finds its way overseas either in the form of merchandise shipped directly from our shores or in the shape of credit readjustments with other countries.

As for governmental control, it may be said that our Government does not exercise any such regulation nor does it presume to pass on the general soundness and economic merits of such loans. Any intrusion of governmental machinery upon such a problem would involve the injection of politics into one of the most highly dangerous fields. It would subject our Government to accusations from abroad on the score of "economic imperialism" to a degree hitherto undreamed of. The only relationship of our Government to this particular phase of the problem is that exerted through the State Department, which, as a result of conferences between the bankers and President Harding's administration in 1921, has taken the stand that the Government cannot look with favor on three types of loans:

1. Those for unproductive purposes, such as

military expenditure or mere budget balancing. Advances of the latter type would be nothing but subsidies to inefficiency and slack fiscal methods.

2. Those to foreign raw-material monopolies which might exploit our consumers. Under this heading the administration has on various occasions expressed its disapproval of loans to the Franco-German potash cartel and to the Brazilian coffee monopoly. The bankers have alleged that this position did not prevent the potash and coffee interests securing adequate funds in Europe in which it was reported, indeed, that some American participation was actually arranged. Thus, they allege, the intentions of our Government were completely frustrated, and only ill will toward us was engendered in Brazil, Germany and France. Regardless of whether this was or was not the case, or whether enterprises operated with such loans would encounter our anti-trust laws (as happened in the Sielcken coffee case shortly before the war), it has been clearly demonstrated during the debates in Congress, and in the discussions in trade circles and among large consumer groups, that any direct American financing of such oversea monopolies would immediately arouse the bitterest resentment here and would be certain to stimulate legislation which might become most regrettably extreme in its reactions upon all of our oversea financing.

3. The administration disapproves of loans to nations that have not yet funded their war debts to the United States. This has, however, been rather broadly interpreted in the case of France and Greece.

In certain chronically anti-American circles abroad there has been a good deal of agitation and alarm as to the danger involved in the accumulation of overwhelming financial power in the hands of any one nation. This vast predominance of ours, it is felt, may be dangerous to the highly sensitive economic organisms of the world. The hysteria of such criticisms may be brushed aside as more or less obvious propaganda. It emanates largely from what Roosevelt called the "lunatic fringe," which is universal and infinitely more voluble than the great mass of sober-minded citizenry. The specter of this "menace of the American Moloch" disappears immediately when it is recalled that British investments before the war exceeded our present total by nearly 50 per cent. and yet there was no world-wide alarm over that situation. Even to-day British holdings in foreign countries exceed eighteen billion dollars, but one cannot discern any widespread denunciation of England as a "swollen, callous colossus of money-bags" or any of the other vituperative epithets

now being hurled at the United States. Nor is any alarm expressed as to the impossibility of the world's being able to meet the charges upon these British investments; nor was any embarrassment encountered in pre-war days when the purchasing power of money was far greater than we find it now.

Instead of being a peril in any degree whatsoever, the lending ability of our people has been and is to-day one of the most potent factors in the restoration and advance of the post-war world. As Mr. Hoover once said: "By contributing to peace and economic stability, by the loan of our surplus savings abroad for productive purposes, we can contribute to the elevation of the standards of living in foreign countries and the demand for all goods." In 1920, with reference to the economic demoralization of Europe, he pointed out that "there is only one remedy and that is by systematic permanent investment of our surplus in reproductive works abroad." . . .

Nearly \$170,000,000 of American capital has been invested in Poland in the last ten years. These millions have gone into public utilities, which have not only profited American construction companies and equipment organizations very materially, but have also made profound changes in the well-being of the Polish people. The contributions thus effected toward better living and higher consumer demand—through improvements in street-car systems, municipal markets, gas plants, etc.—have all stimulated new purchasing activities and created markets for literally scores of American specialties—motion-picture films, household equipment, kitchen utensils, cheap automobiles—quite apart from the machinery and other heavier installations directly involved in the operations of American construction concerns.

The Germans have been, next to the Canadians, the largest borrowers in the American market, having secured about \$900,000,000 here since the war. Much of this investment has been in industries frankly in competition with our own, but, as in the case of Poland, large sums have also gone into public utilities, which have directly stimulated consumer demand incident to better living conditions.

Our exports to Colombia and Venezuela averaged about twelve million dollars a year just before the war. In 1927 the total was almost eighty-five millions. It is true that much of this sevenfold increase (one of the largest recorded in any of our oversea markets) was accounted for largely by heavy shipments of oil-well machinery, piping and railway equipment. But there were also most significant increases in our sales of numerous

minor specialties—cheap phonographs, antiquated radio sets, films, bicycles, motorcycles, etc.—which were directly due to the general expansion of prosperity and purchasing power resulting from the increasing wages paid by the large American oil companies and fruit plantations.

Here is a further illustration of this relation between loans and exports as applied to one specific undertaking, which is a type of evidence rather difficult to obtain: A large American organization, which has some eighty million dollars invested in its operations in a certain foreign country, has been importing into that country from the United States every year since the war an average of \$3,700,000 worth of machinery, material, equipment, etc. This does not take into account the food, clothing and other articles imported for consumption by the concern's employees, whose purchases have, of course, been greatly stimulated by steady advances in wages. Another similar concern in the same field has imported from the United States in the course of nine years nearly fourteen million dollars' worth of merchandise.

In southern Norway there is a factory in which \$15,715,500 dollars of American capital has been invested and which is turning out cheap fertilizer for the world's farmers.

A typical example of American investments in Canada, which have reacted powerfully upon our sales to our northern neighbor, is the ten million dollars put into one enterprise by our capitalists last year which has produced a whole new town and provided wages for hundreds of workers. This is just one of the reasons why Canada has for the first time become our best foreign market, passing her mother country in that respect, with a total purchase of our goods that exceeded \$850,000,000 in the fiscal year 1927-28, or fifty million more than the United Kingdom is taking.

Of course, it would be absurd to allege that we have been impelled solely by altruistic ideas in these dealings. The private loans by American investors have been straight business transactions. Our people have put money into enterprises abroad because of the especially inviting yields or the terms of these loans. . . .

An important phase of this whole question is the problem involved in our increasing investments in branch factories in foreign countries. Considerable apprehension has been expressed of late in industrial and labor circles as to the sinister consequences of this development. In some isolated instances this alarm is perhaps justifiable. If we turn to England's experience, there can be no doubt that the establishment of textile mills in Brazil and jute factories in India have done ma-



terial damage to Lancashire and Dundee. There is a question, however, as to whether this oversea industrialization could have been avoided. In each case upon analysis it is revealed that special circumstances were responsible: high tariffs against finished goods in the case of Brazil, or the proximity of cheap labor and raw material in the case of India. British capital in both of these instances, therefore, took the only available course of attempting at least to control the oversea development rather than have it drift into competitive hands. In this manner the production has in some cases been confined to lines or markets in which competition with British products would not be so embarrassing.

In the case of our own industries, there have been numerous developments of this type. Our exports of shoes to several Latin-American markets have been considerably reduced through the development of native factories, but these in many instances have been under American control, and in several cases the American exporters affected are now doing a larger business with those markets in findings, supplies, etc., than they were previously in the finished product. This was also the experience with a well-known rubber company in its trade in raincoats and allied lines; the company is now making greater sales in rubberized cloth and other supplies for native industries in various South American countries than it enjoyed previously in the finished garments. There is an American branch factory in Japan which recently secured a large order for South America. This raised the cry of "cheap Oriental labor competing with American workmen." But on closer investigation it was evident that the American home plant could not have secured the order in any case as against European competition, and the success of the branch in Japan, therefore, was indirectly a distinct gain, in that it meant more demands from the branch for American supplies and equipment, to say nothing of the profits accruing to the parent house.

The industrialization of China has been causing some alarm in recent years because of abundant cheap labor. It has been feared that this would curtail our fabricated exports to that market. This, however, has by no means been the case. Our sales there have risen from \$35,000,000 in 1913 to \$102,000,000 in 1927—and that in spite of all the turmoil and civil war during the past decade. Chinese textile factories have made no appreciable headway against our Far Eastern cloth trade. For the most part their products are not in competition with ours but rather with lower grades produced by Japan and England.

One of the paramount issues in connection with the growth of our oversea investments has been the development of a policy of control by our bankers or industrialists to prevent unfavorable reactions on our own welfare. Such controls are known as "ear-marking"—namely, the stipulation that a part, perhaps all, of the proceeds of the loan shall be expended by the borrower in the lending country. This practice, though common in Europe, has made little headway here as yet. On one point, however, our manufacturers have insisted with some effect—namely, that when the proceeds of the loan are to be expended the specifications of the bids involved must be non-discriminatory. We have a right at least to an "even break," and our official agencies abroad have been especially vigilant to see that this is assured.

Ear-marking definitely restricts the buying freedom of the borrower and therefore discourages his recourse to such markets where it is actually imposed. Indeed, it has been the experience of some European bankers that the practice develops a definite feeling of resentment on the part of the borrower, which finds expression at times in very embarrassing fashion. Compulsory trading of this or any other sort never makes for that *mutual* satisfaction for both parties which is indispensable in successful modern business.

Our American investment bankers have been warned that unless they proceed warily in this field, with every precaution against the stimulation of undue foreign competition through such loans, they may destroy the American industries which, so to speak, are producing the very funds that are being used in the given loan or investment. Governmental control over such loans is obviously out of the question, as I have indicated above; the perils of such bureaucratic paternalism are too evident to require discussion. There are, however, other devices which are being suggested. In various European countries considerable use is being made of interlocking directorates; that is, the same executives sit both on the investment bank board and on that of the given industrial enterprise; consequently, the bank will be careful not to finance a foreign enterprise competing with the native industry controlled by the bank's officials. This was a conspicuous feature of Germany's oversea activities just before the war, and there are occasional evidences of the practice in our own recent experience in one or two South American countries.

The anxiety of American labor over this stimulation of oversea industry through American loans is beginning to find expression through the increasing ownership of shares among employees in

large enterprises with branches abroad, or with such prestige in financial circles as to command some respect among investment bankers.

Then there is the vital problem as to the payment by foreigners to us of the vast amounts of interest due on these ever-increasing loans. This sum totaled \$740,000,000 in 1927, and the query has arisen as to whether we are hampering such payments through our tariff policy in defense of our own industries which compete with those whose products our foreign debtors wish to export to us. This apprehension has been expressed for years, but it ignores the fundamental fact that such international obligations are by no means necessarily settled through the *direct* interchanges of goods between debtor and creditor.

As I have indicated, the amount owed to us as interest on our investments is more than balanced by one item alone—namely, our tourists' bill abroad. So when some blue-spectacled prognosticator asks with alarm, "How are the poor foreigners ever going to pay such an enormous sum in annual interest to our American bankers?" we can truthfully reply that we are paying it for them when we take our pleasure jaunts or business trips abroad. Every dollar spent by the 500,000 American travelers who swarm in foreign countries each year, whether it be for opera tickets in Vienna or Cook's tours to Stratford, is a contribution toward the adjustment of amounts owed to us by foreigners.

This tourist item played a vital part in the recent discussions with France regarding the French war debt and her tariff policy on American merchandise. It was revealed that whereas the interchange of merchandise between the two countries was

"unfavorable" to the French, since we sold them about \$225,000,000 worth a year and bought from them less than \$150,000,000 worth, nevertheless the largest single item on the Franco-American balance sheet was an invisible one very much in favor of France—namely, the \$225,000,000 debt which we owed her for taking care of our tourists.

The position of the United States as the greatest investing nation in the world to-day is one of responsibility no less than of opportunity. It affords no basis for flamboyant jingoism or economic rantings. The great financial resources of our people are something to be utilized carefully, discreetly, without ostentation or undue aggression—with a just regard for the general welfare and for our own proper interests at home and in foreign lands. There should be no shortage of capital for domestic purposes, and it may be said with confidence that no such shortage impends or is in sight.

This vast fund of capital, which we are pouring into the pool of the world's business at the rate of four or five million dollars a day is an invaluable contribution to prosperity in general. And prosperity anywhere is "all to the good." It is something that no one nation can or should hope to monopolize. We do not gain from the presence of adversity or depression elsewhere. It is greatly to our interest in cold dollars and cents to have business booming in all parts of the world, to find ourselves surrounded by contented, busy neighbors. That is one of the surest guarantees of international order and goodwill. Political disturbances spring from economic unrest, from depression and misery. . . .

## *Foreign Reactions to the American Tariff Act*

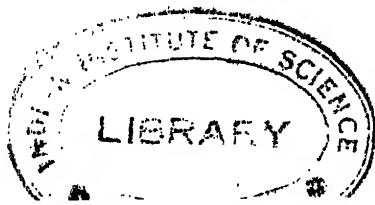
BY LAWRENCE B. MANN

### INTRODUCTION

THE TARIFF ACT of 1930, popularly known as the Hawley-Smoot tariff, became law on June 17, 1930, after a year and a half of lengthy hearings, protracted discussion in both houses of Congress, and protests by governments, chambers of commerce and agricultural associations of leading foreign countries. Widely conflicting statements have been made concerning the comparative height of this tariff, its cost to the American people, its effects on import and export trade, and the possibilities that it may result in retaliation on the part of foreign countries.

The world-wide interest in a piece of legislation

which its supporters assert is purely domestic is explained very largely by the outstanding position of the United States in international trade and finance. The total value of commodities exchanged by the various nations has in recent years averaged about 35 billion dollars annually, of which the United States has supplied exports valued at about 5 billion dollars and taken imports valued at about 4¼ billion dollars. In other words, the United States furnishes about 15 per cent of the world's exports and takes more than 12 per cent of the total imports. It ranks first among the nations as an exporter of goods, and is second only to the United Kingdom as an import market. Furthermore, the government and citizens of the United



States have made foreign loans of a public and private nature during the past decade and a half which aggregate well in excess of 20 billion dollars. It is possible that a substantial increase in the American tariff will make more difficult the payment of the interest and principal of these loans.

The fact that only about 8 per cent of domestic production is exported and that imports form an even smaller proportion of consumption give the impression that foreign trade is of relatively small importance to the United States. Actually, however, the foreign demand for that proportion of agricultural and mineral production which is exported often determines the value of the entire output of the United States. This is particularly true in the case of cotton, wheat, and copper. Furthermore, exports have become of ever-increasing importance in the case of many types of finished manufactures, such as automobiles, moving pictures, electrical machinery, agricultural implements, and typewriters. On the other hand, imports of crude materials are a vital necessity for many of the largest industries. The United States is entirely dependent on foreign countries for rubber, silk, tin, coffee, cocoa, and many textile fibres, and is compelled to import a substantial proportion of the copper, petroleum, wood pulp, wool, sugar, furs, and hides and skins used by its industries.

Foreign trade is even more vital in the case of many foreign countries which do not have as large an area or as varied resources as the United States. It is necessary for them to import, and the purchasing power for these imports must be partly provided by exports. On account of its large population and high standard of living, the United States is the most important market for many types of commodities produced by these countries. It takes more than two-thirds of the exports of Mexico, Cuba, Colombia, and certain Central American countries, and from one-quarter to one-half of the imports of Brazil, British Malaya, Japan, Canada, Chile, Peru, and Venezuela. It is not surprising that a radical revision of the American tariff has caused grave concern in many foreign lands.

During the discussion of the Hawley-Smoot tariff, protests were received from more than 30 foreign nations in regard to changes in over 200 commodity classifications. These protests were usually inaugurated by foreign commercial or agricultural organizations, but in a number of cases were also reinforced by an official note from the government of the foreign country concerned.

The tariff act of 1930, in addition to encouraging upward tariff revisions in Canada, Cuba,

Mexico, France, Italy, Spain, Australia and New Zealand and creating general irritation against the United States and American goods, has had a number of interesting by-products:

(1) It has resulted in several attempts to curtail imports of a number of important American products, such as automobiles, copper and moving pictures. It is impossible to estimate at the present time how far this movement will go, but it seems more likely to be successful in the case of consumers' goods, such as automobiles and moving pictures, than in the case of producers' goods, such as copper, cotton, and petroleum, which are usually not identifiable in their final form and are consequently less susceptible to boycott.

(2) The American tariff has been mentioned in a number of statements advocating the movement for a general European customs union as it is claimed that such a union would be in a better strategic position than individual countries in bargaining with the United States concerning rate concessions.

(3) The 1930 tariff act has also been cited in the United Kingdom and various British Dominions and possessions as an added reason for a system of British Empire preference. A United Empire party has been created in Great Britain; and Canada, Australia, New Zealand, Bermuda and other possessions have revised their tariffs in such a way as to encourage trade with the United Kingdom and discourage trade with foreign nations. . . .

This report will outline briefly some of the more important features of the new tariff act, the commodities and countries most affected by changes in duties, and the specific reactions of foreign countries to the passage of the act.

#### ANALYSIS OF THE 1930 TARIFF ACT

The United States has for many years had a protective tariff—that is, tariff rates are fixed at levels sufficiently high to protect American producers from the competition of lower-cost foreign producers. This is in contrast with systems of tariff for revenue only, which make no attempt to equalize foreign and domestic costs of production. The United States tariff has a single column of rates which applies to imports from all foreign countries except Cuba, whereas practically all foreign nations have at least two columns of rates, the lower of which applies to countries with which they have "most-favored-nation" treaties and the higher to all other countries. Certain nations also have provisions in their tariff law for countervailing duties to be applied to imports from countries

which have raised a particularly high tariff barrier against their exports.

The tariff act of 1930 encompassed a somewhat less sweeping revision of duties than did the tariff act of 1922. This was not particularly significant in view of the fact that it was enacted by the same political party as the previous act, that there had been no drastic change in price levels between the passage of the two acts, and that the President, in his message of April 16, 1929 calling a special session of Congress, had specifically recommended that the revision of schedules other than that dealing with agricultural products should be "limited." According to a tabulation by the Tariff Commission, there were 3,221 dutiable items in the act of 1930 as compared with 2,840 in the act of 1922. Of 1,125 changes in rates, 890 were increases and 235 were decreases. Fifty items which had been on the free list became dutiable, while 75 items which had been dutiable were made free.

Calculations of the Tariff Commission indicate that the average ad valorem rates under the new law, based on statistics for 1928, are 41.57 per cent on dutiable articles and 16.01 per cent on free and dutiable articles combined. These average rates are somewhat higher than under either of the two immediately preceding acts, about the same as under the Payne-Aldrich and Wilson acts, and lower than under the McKinley and Dingley tariffs. The significance of these comparisons is very questionable, however, as there have been radical changes in the nature of American import trade during the past forty years; crude materials and semi-manufactured articles, most of which enter free of duty, have increased greatly in relative importance, while imports of foodstuffs and finished manufactures show a corresponding decline. Furthermore, shifts of items between the free and dutiable lists make comparisons of average rates under different tariff laws misleading.

The most drastic changes in rates under the act of 1930 were recorded in the agricultural schedule, which was raised to the highest average level in the history of the United States. But substantial increases were also shown in the average ad valorem rates in many manufactured articles in the following schedules—wool and manufactures, sugar, chemicals, cotton manufactures, and earthenware and glass.

The administrative features of the new tariff act are in the main similar to those of the previous act, although the powers of the Tariff Commission in regard to rate adjustments (the flexible clause) have been considerably broadened. . . .

Under the flexible clause of the act of 1922 the Tariff Commission in the course of seven years

received 603 applications for investigations covering 375 commodities; it instituted 83 investigations covering 91 commodities, and completed 47 investigations covering 56 commodities. Rates were changed by Presidential proclamation in the case of 38 commodities (33 increases and 5 decreases), while no action was taken in the case of 18 commodities. As a rule, investigations in the past required about two years for completion, as it was necessary to hold hearings and conduct extensive inquiries into both the domestic and foreign costs of production.

#### EFFECTS OF THE NEW AMERICAN TARIFF POLICY ABROAD

In order to determine what justification there is for foreign protests against the United States tariff it is desirable to have some idea of the comparative height of the tariff walls which surround the leading countries. Any entirely accurate comparison of the average height of different tariffs is of course impossible, owing to the differences in the commodities imported, in the classifications, and in the basis of rates. However, the Preparatory Committee for the World Economic Conference, in conjunction with the Secretariat of the League of Nations, made a careful study of this problem in 1926. For purposes of its study the Preparatory Committee of the League defined the height of a tariff as "equal to the average of the percentages which the duties imposed by any given country constitute of the values of the commodities which go to compose the whole catena of goods normally entering into international trade." Such averages or indices were computed by four different methods for 20 different countries for the years 1913 and 1925. The results obtained for 1925 by the most refined of these methods are indicated below.

COUNTRY	INDEX	COUNTRY	INDEX
Spain .....	41	Germany .....	13
United States ....	31	India .....	13
Argentina .....	22	Austria .....	12
Hungary .....	22	France .....	12
Poland .....	21	Sweden .....	12
Jugoslavia .....	20	Switzerland .....	10
Czechoslovakia ...	19	Belgium .....	9
Australia .....	18	Denmark .....	6
Italy .....	16	United Kingdom .	5
Canada .....	15	Netherlands .....	4

According to these indices the United States tariff was higher in 1925 than that of any of the other countries studied, except Spain; its relative position, moreover, was the same in the results obtained under each of the other three methods used by the League of Nations. Russia and the

Baltic States also have very high tariff barriers, but these countries were not included in the League's studies and consequently cannot be ranked on a comparable basis. Since 1925 there have been increases in the tariff schedules of a number of the countries studied, but these were in most cases less drastic than the recent advance in the American tariff.

After making allowances for recent changes in rates, Spain continues to have the highest tariff level of the countries included in the survey of the League of Nations, while the United States ranks second in this respect.

#### FORMAL PROTESTS

During the period of a year and a half that Congress spent in revising the tariff there was widespread agitation in foreign countries concerning the effects of the proposed legislation. In part, this agitation took the form of memoranda of foreign governments, transmitted through the Department of States, but there was also much unofficial protest voiced in foreign newspapers and periodicals; likewise there were threats of retaliatory tariffs and the boycott of American goods by commercial and agricultural associations in foreign countries.

Altogether, official notes of protest were received from more than 30 foreign governments and covering over 200 commodity classifications. These communications varied from mere notes of transmittal to solemn warnings of reprisal on the part of the government or people concerned.

The longest communications in regard to commodities affected by proposed changes in the tariff were received from the British Empire, and the duties protested affected the cotton and woolen textiles of England, the cashew nuts of India, the onions, celery, kale, beets, parsley and other vegetables of Bermuda, the sponges of the Bahamas, the wool, hides and skins, sausage casings, and pearl shells of Australia, and commodities raised in many other separate possessions.

Almost all of the other commercial nations protested duties which would affect their more important industries. In most of the memoranda an attempt was made to point out that the new duty was excessive in view of statistics of production costs in the protesting countries and the relative unimportance of the competition to United States industries. In a few cases it was pointed out that the industry protected was practically nonexistent in the United States and that, consequently, the tariff would impose an unnecessary burden on American consumers. There was little, if any, attempt to prove that the proposed duties

would result in discrimination against the protesting countries.

It is questionable whether these formal protests of foreign governments had any appreciable effect on many of the rates specifically named. However, it is possible that the large number of these protests had some effect on the attitude of American financial interests and export industries toward the bill and tended to restrict the average increase in rates.

Two of the most severe foreign protests against proposed changes in the tariff schedules were made by the French lace-workers and the Swiss watch-makers. A sharp advance in lace duties was incorporated in the proposed tariff bill early in 1929 and this resulted in a parade of protest by 20,000 lace-workers at Calais and direct appeals by them to the American Ambassador. As a result, the schedule was reconsidered and the rates restored to their former level of 90 per cent.

In the case of the watches and watch movements changes were incorporated in the proposed tariff which would have increased duties between 400 and 500 per cent. These proposals led to the drawing up of resolutions of protest at a mass meeting of 15,000 clock and watch-workers at Bienne, while smaller meetings of popular protest were held in other Swiss towns. In this case also the result was a downward revision in the proposed rates.

Numerous less dramatic protests have been made against various rates in the new tariff by foreign chambers of commerce, manufacturers' associations, and agricultural associations. These have in many cases been accompanied by threats of reprisal in the form of cancellation of most-favored-nation treaties, retaliatory tariffs, and boycotts of American goods. . . .

#### FOREIGN RETALIATION

The extent of actual retaliation which will result from the increase of American tariff rates prescribed by the act of 1930 is difficult to gauge, because most foreign governments deny that any action which they may take is intended as a reprisal, because there may be a number of motives involved in changes of foreign tariff rates, and because some of the most effective retaliation may result from intangible factors, such as increased sales resistance to American goods on the part of foreign consumers. Nevertheless, the new tariff has resulted already in several very obvious acts of retaliation as well as much irritation and anti-American feeling in many foreign countries.

Canada, Cuba, Spain, Australia, and New Zealand have already made sweeping tariff revisions

in 1930 which are of such a nature as to discourage imports from the United States, and Argentina and Mexico are considering substantial rate revisions. Furthermore, France, Italy and Mexico each have increased sharply their duties on one of their leading imports from the United States and there have been a number of minor rate revisions in other countries which seem to have been inspired by irritation against or emulation of the United States tariff. . . .

#### CANADA

The mutual importance of friendly trade relations between the United States and Canada is indicated by the fact that in recent years Canada has been the leading foreign market for United States merchandise, and, conversely, the United States has been the most important market for Canadian goods. In 1929 American exports to Canada totaled about \$950,000,000, while American imports from that country exceeded \$500,000,000.

American imports from Canada consist largely of raw materials and semi-manufactured articles, while leading American exports are finished manufactures and fuel. Wheat appears both as an export and an import, but most of this grain is eventually shipped to Europe.

Agriculture is the principal industry of Canada and the drastic upward revision in rates on farm products in the new United States tariff has raised a storm of protest and ill-feeling. Although cattle is the only large item in the trade which is affected by the new rates, there are a multitude of advances on smaller items, such as halibut and potatoes from the Maritime Provinces, dairy products from Quebec, maple sugar and grain from the prairie provinces, and logs from British Columbia, the increased duties on which have caused anti-American feeling in all parts of the Dominion.

The Canadian Minister of Finance in a budget speech on May 1 announced the most drastic revision of the Canadian tariff which has occurred since 1907.

This revision, which was enacted into law by the Canadian Parliament on May 28, provided for decreases on 270 items and increases on 11 items under the British preferential tariff; decreases on 98 items and increases on 35 items under the intermediate tariff, which applies to countries having most-favored-nation treaties with Canada; and decreases on 82 items and increases on 87 items under the general tariff, which applies to the United States and other countries having no commercial treaties with Canada. The most outstanding feature of this new tariff schedule was the introduction of countervailing duties on potatoes, soups,

live stock, fresh meats, cured and pickled meats, butter, eggs, wheat, flour, oats, oatmeal, rye, cut flowers and cast-iron pipes. The effect of these countervailing duties is automatically to increase the Canadian duty to the rate any country of origin imposes on imports from Canada, providing that rate is higher than the Canadian rate. Premier King of Canada stated on June 16 that these countervailing duties were imposed in order to show the United States that Canada desires to trade on equal terms, and that the purpose of the general revision of rates by Canada was to divert to the United Kingdom purchases of many types of goods previously bought in the United States.

As a result of the provision for countervailing duties, rates on a large number of agricultural commodities imported into Canada from the United States were raised on June 18, when the new United States tariff became effective. Potatoes, for example, had previously been free and now took a duty of 75 cents per hundredweight.

Tariff policies were much discussed during the election campaign in Canada in July 1930. This resulted in a decisive victory for the Conservatives, who opposed countervailing duties, but advocated higher tariff barriers against all other countries, including Great Britain and the other Dominions. The Conservatives obtained 138 seats in the House of Commons and have a majority of 33 over all other parties combined.

It is generally anticipated that the Conservative party will make a further upward revision of the tariff, but there is some dispute as to whether the revision will aim to exclude all imports or will foster trade with other parts of the British Empire at the expense of foreign countries. . . .

#### ARGENTINA

Argentina has long been the leading customer of the United States in South America, although much less important than Brazil as a source of American imports. During 1929 exports to Argentina totaled \$210,300,000, while imports aggregated \$117,600,000.

Practically all of the leading imports from Argentina are either agricultural or animal products; consequently the rate advances intended to aid the American farmer adversely affected much of this trade. Duties were raised on two-thirds of the items shown in the table and the proportion of the total trade affected was even greater.

The large increases in duties on flaxseed, corn, and casein, three of the most important commodities in the trade, have particularly aroused the Argentine farmers. The rate on flaxseed was especially irritating, as it was fixed at a much higher

level than the Tariff Commission had indicated was necessary to place the American product on a competitive basis. The increased duty on corn was also considered entirely unnecessary, as practically no corn was imported into the United States under the previous rate. As a result, the Union of Agrarian Producers sent President Irigoyen a long note, pointing out that the duty on casein is more than the local price and that the duties on flaxseed and corn are nearly half the Argentine price; it urged that a new interpretation be given to the most-favored-nation clause of commercial treaties so that tariff concessions would be extended only to nations which grant similar advantages to Argentina.

The Argentine customs law empowers the President to increase existing duties upon products from countries which do not grant most-favored-nation treatment to or which discriminate against Argentine products; it also empowers him to grant reductions of duties upon articles which offer equivalent advantages to Argentine exports.

The Argentine Minister of Finance on May 5 appointed a committee of customs appraisers to draw up a new tariff, which is generally expected

to embrace various duties affecting leading importers from the United States. Already regulations concerning imports of apples from the United States have been stiffened by the refusal to accept certificates of American state authorities in regard to their quality.

Distinct efforts have been made by various groups in Argentina to boycott United States goods. In this connection the Anglo-Argentine trade agreement of September 1929 is of special interest. This reciprocal agreement resulted from the visit to Argentina of an economic mission headed by Lord D'Abernon, and possibly represents an effort to divert trade from the United States. It provides that Argentina shall purchase from Great Britain materials to the value of 100,000,000 pesos to be used in modernizing and extending the state railroads, while Great Britain is to purchase from Argentina commodities of an equivalent value, principally grain, meat, and wool. The Argentine Rural Society in June sent a circular to all members, outlining the damage done to Argentine interests by the new American tariff and urging that they refrain from purchasing American products of any description. . . .

## *TWO FAILURES IN FOREIGN POLICY*

THOUGH THE SENATE had refused to put the United States into the League of Nations and repeatedly rejected efforts to bring America into the World Court, the United States did not abandon the cause of world peace during the nineteen twenties. Instead of making itself party to the covenant of a general organization, with commitments that might be construed as "entangling alliances," America undertook to deal with specific questions. At least three times during the decade, the United States participated in conferences assembled to meet the dangers latent in competitive naval building and the Pacific problems so closely connected with it. That Pacific problem had two aspects: the rise of Japan as a possible rival of the Pacific colonial powers, and the effort of China to establish a free national life despite the pressure of disorganization within and aggression without.

Under the Imperial façade, the Chinese Empire had been crumbling since the Taiping Rebellion. After the Boxer uprising and the

joint intervention of the Powers at the turn of the century, the Chinese Empire went through another uneasy decade. It was then replaced by Sun Yat Sen's republic, which stood confronted with the problem of reducing local feudal chiefs and of protecting China from the encroachments of foreign powers, particularly Japan. As a reward for joining the Allies in World War I, Japan claimed the former German concessions of Shantung and Kiaochow and a whole array of special privileges in China. Chinese protests, and the Western Powers' reluctance to see Japan become the major factor in Chinese economic life, finally forced Japan to drop her Twenty-One Demands, though dominance in China continued an implicit part of Japanese policy until the overt act of the invasion of Manchuria in 1931.

It was the spectacle of competitive armaments in a world at peace rather than Pacific questions alone that led to the calling of the Washington Conference of 1921-1922; but Pacific problems remained one of the major



topics on its agenda. In the fall of 1921, representatives of the United States, Great Britain, France, Italy, Japan, and China—and of the Netherlands, Belgium, and Portugal, because of their Pacific possessions—met to discuss disarmament and the preservation of peace. Since France insisted that land armaments be excluded from discussion, the conference concentrated on navies and Pacific issues. The United States proposed a naval holiday for capital ship construction, the scrapping of certain quantities of naval tonnage, and the establishment of a fixed ratio for naval building in the future. Secretary of State Hughes went further, suggesting a reduction of submarine and cruiser tonnage, but this met with no favor among the other powers. The conference did succeed in drafting a Five Power treaty fixing the ratio of capital ship strength at 5:5:3 for Great Britain, the United States, and Japan, and 1.67:1.67 for France and Italy.

On Pacific questions, the conference divided the former German possessions among Japan, Great Britain, Australia, and New Zealand; secured a Sino-Japanese treaty returning Shantung to Chinese jurisdiction; and allocated the German cables to the victors. More important, so far as China was concerned, were the Nine Power and the Four Power treaties. In the first, all the members of the conference pledged themselves to respect the territorial integrity of China and to maintain the Open Door not only for commerce but also for industry and capital investment. By the second, the United States, Great Britain, Japan, and France pledged themselves to respect each other's rights in their respective Pacific possessions and to submit points of difference beyond ordinary diplomatic adjustment to joint conference of the parties to the Four Power pact. This, incidentally, not only abrogated the Anglo-Japanese alliance in fact, if not in name, but also committed the United States to compulsory conciliation in Pacific disputes.

To Yamato Ichihashi, secretary to a leading member of the Japanese delegation to the disarmament conference, the results seemed to

promise future peace. Ichihashi, in a review of the conference's work written as late as 1929, expressed the belief that even the problem of China might be solved without conflict among the major powers. Three years later, Japanese aggression had been renewed.

So far as naval armaments were concerned, hopes for reduction proved unwarranted; if capital ship construction was limited, the building of smaller units proceeded unchecked despite conferences at Rome in 1924 and at Geneva in 1927. Late in 1929, Great Britain invited the nations that had signed the Five Power Naval Treaty to meet at London for another discussion of naval armaments limitation. At London, the Mediterranean rather than the Pacific was the focus of trouble, the source of which lay in the clash of ambitions between France and Fascist Italy. At the outset the conference came close to failure when the French refused to admit Italy's claim for equality of tonnage in the lighter categories. The diplomacy of Dwight W. Morrow succeeded in preventing an actual break-up, and, again, the United States took the lead in attempting to relieve the nations of the burdens of competitive naval building. The treaty which it drafted provided for parity between Great Britain and the United States; the continuation of the capital-ship holiday until 1936; and new specific ratios for auxiliary vessels. By 1936, when the capital-ship holiday was ended, new construction by nonsigners Germany and Italy afforded the signatories the opportunity to inaugurate a fresh building race. Japan, also, had probably been going ahead secretly. In any case her fortification of the mandated Pacific islands, her attack on China in 1937, and the rearming of Germany on the European Continent alarmed America. The United States began to modernize and strengthen her navy. And thus failed the foreign policy of the nineteen twenties which assumed that world peace was possible by negotiation and without the acceptance of responsibility.

The selection here reprinted is from Ichihashi's *The Washington Conference and After*



(Stanford, Calif., 1928), and is published by permission of the Stanford University Press.

The limitation of naval armaments might spare the taxpayer the cost of competitive naval building, but, in itself, it was no guarantee against war. So long as war seemed a natural recourse to nations, some of them would be bound to turn to it to settle disputes. In 1926, Premier Briand of France had remarked that keeping the peace was a matter of psychology rather than the devising of international organizations: war had its roots in the fact that nations considered it a legitimate means of advancing their interests. Briand's comment caught the imagination of newspapermen, first, and then of many political figures. Among these was Frank B. Kellogg (1856-1937), the American Secretary of State in the Coolidge administration. Briand had originally proposed that the United States and France enter into a bilateral pact to re-

nounce war as an instrument of national policy. Kellogg was interested, but in December, 1927, he went further and suggested that such a treaty be made multilateral. Kellogg pushed the matter energetically, the Pact of Paris was drawn up in 1928, and before long fourteen countries, including all the Powers except Russia, had signed it. On January 15, 1929, the United States Senate ratified the pact and on July 29, it was proclaimed to be in force.

On November 11, 1928, Kellogg made the public address reprinted here. America was surrendering no part of its sovereignty, joining no world organization to assure international peace; it was depending upon the moral force present in all people to guarantee comity among nations and security against aggression. A brief decade later, World War II had begun. Again, American foreign policy had failed.

Kellogg's address is reprinted from a pamphlet issued by the U.S. Government Printing Office (Washington, 1928).

## *The Washington Conference and After*

BY YAMATO ICHIHASHI

### CHAPTER XXII: THE PACIFIC CONFERENCE AND AFTER—CONCLUSIONS

THE SURVEY in the preceding pages makes it clear now, it is hoped, that the Far Eastern and Pacific Conference concerned itself primarily with the problems of China, involving international interests and therefore calling for their solution by international agreements. We have traced the causes internal and external which brought these problems into existence; we have sketched briefly the history of Chinese foreign relations, which is divided by Dr. Morse into three periods: He calls the first period, embracing the years between 1834 and 1858, the "Period of Conflict"; the second, between 1858 and 1895, the "Period of Submission"; and the last, between 1895 and 1911, the "Period of Subjection." The writer added that the years following the downfall of the Manchu Dynasty constituted a continuation of the last period. We saw in the beginning of this third period the rise of a new power; Japan became a factor to be reckoned with in Far Eastern international affairs. This fact tended to complicate the al-

ready complicated inter-relations of the Western nations interested in China. These circumstances produced a situation in which international rivalries, jealousies, distrust, and antagonism ran rampant. These dangerous tendencies were rendered more so by Chinese officials, many of whom were willing to sacrifice their national interests for their personal profit. What happened during the Sino-Japanese war of 1894-95 and immediately after will elucidate this fact for anyone who is not very familiar with the history of Chinese diplomacy. China tried to win the war by involving the Western nations interested in her. A triple intervention resulted, which forced Japan to retrocede some of the fruits secured by the Baku Treaty. But China did not escape paying the price of this diplomatic victory over the Japanese; in fact, she was subjected to aggression upon aggression by the Western powers, and even her very existence was threatened. These Western aggrandizements are in no way to be justified, but for them the Chinese officials must be held, in part, responsible.

Japan watched these developments with a keen interest, and she soon decided to imitate the con-

duct of Western powers in her relations with China. She joined the international expedition against the Boxers; she formed an alliance with Great Britain; she fought and defeated Russia; she was now a full-fledged Great Power. But the West began to apprehend this aggressive Asiatic nation, and, when she proved herself so successful in her economic enterprises in South Manchuria, Europe and America became hostile to her. Japan was severely criticized by her Western colleagues for doing what they were doing; she was vehemently charged with violating the sacred open-door principle. In short, she was made the scape-goat for all the ills of the Sick Man of the Far East. Her blunder in 1915 proved conclusively to the West that she was the devil incarnate.

Be that as it may, when the Washington Conference was convoked "there existed with regard to the Far East causes of misunderstandings and sources of controversy which constituted a serious potential danger." These difficulties centered about China. At the conference the interested powers faced China's problems sympathetically with a view to helping her, but the delegates were forced to realize that their Chinese colleagues often became too eloquent over their "Bill of Rights." The foreign delegations preferred to see China seeking and not demanding; nevertheless, they granted many and unparalleled concessions to her. The most important of these concessions related to the tariff. The treaty signed at Washington by the nine powers became operative two months later without ratification. It provided for revision of the tariff into an effective 5 per cent, which would enable China to secure an extra revenue of \$17,000,000 silver on the basis of the 1920 customs revenue. It also provided for a surtax of 2½ per cent ad valorem, which would enable her to collect about \$27,000,000 silver extra. Furthermore, it provided for a special surtax on luxuries at 5 per cent ad valorem, which would enable her to gain \$2,000,000 more, or a total additional revenue of about \$46,000,000 silver; on this basis, the new tariff would yield about \$110,000,000 silver, or an increase by 70 per cent. The treaty further provided for future revisions of the tariff in order that China might enjoy the fruit of effective rates. According to a stipulation of the treaty, the Revision Commission met at Shanghai in March 1922 and put the revised tariff in force on January 17, 1923. The proposed conference on likin and surtax, however, was delayed by France because of her Boxer indemnity controversy with China. When this difficulty was settled, she and Italy ratified the treaty on April 2, 1925, and the conference was summoned on October 26, but it failed

because of the Chinese attitude. Despite this fact, the various factions in China levied and collected the surtax, causing some diplomatic complications. Nevertheless, the powers affected by these high-handed acts seem to have taken rather a tolerant attitude, and it is hoped that a proper solution can be found when a stable government is established in that chaotic country.

Equally important was the open-door treaty. By it the famous open-door principle was re-defined and given a legal sanction. It guaranteed the maintenance of the principle in future international dealings in China because under it the signatory powers pledge themselves to abide by that principle. It further provided against the future creation of spheres of influence. It also provided against the violation of China's rights as a neutral nation. But China was made responsible to abide by the open-door principle also; she was not to make unfair discrimination as regards her railroad charges. Finally, the treaty created an international board "with special reference to their [signatory powers'] general policy, designed to stabilize conditions in the Far East, to safeguard the rights and interests of China, and to promote intercourse between China and other Powers upon the basis of equality of opportunity." These stipulations constitute a contribution toward emancipation of China from further foreign encroachments; the treaty undoubtedly marks a great progressive step toward improving Far Eastern diplomacy.

The question of Shantung and the Twenty-one Demands involved Japan and China alone, but were not without interest to the conference. The Shantung issue was settled by a treaty signed at Washington, though not as a part of the conference. Under it Japan restored all the rights and privileges formerly held by the German Government and later transferred to Japan by the Treaty of Versailles. On the other hand, China acknowledged the validity of the Sino-Japanese treaty of 1915, the Sino-Japanese agreement of 1918, and the Treaty of Versailles. In other words, the technicality with which China had been fighting Japan since the Peace Conference at Paris was thrown into the junk-pile once for all by the Washington Treaty. On the Twenty-one Demands Japan offered several modifications, but China wanted a complete renouncement. The conference, the majority of whose participants were signatories of the Treaty of Versailles, could not do more than accept the offers of Japan. China was defeated once more as she had been in Paris. But when the original Russian lease of the Liaotung Peninsula expired in 1923, the Chinese Govern-

ment undertook to notify Japan of that fact, but the latter paid no attention to it. Japan is likely to remain in that region for many years to come.

Aside from these treaties, several resolutions were adopted by the conference whereby the powers pledged themselves to discontinue to exercise rights and privileges which they had assumed to enjoy. The United States, Great Britain, France, and Japan maintained their post offices in China, but these were completely withdrawn by January 1, 1923. The powers agreed to withdraw their armed forces stationed in China "without the authority of any treaty or agreement whenever China shall assure the protection of the lives and property of foreigners in China." Accordingly Japan withdrew her troops of this category from China. The powers acceded to China her request that the use of their radio stations authorized in China would be confined to official messages, while their unauthorized ones would be transferred to her. They pledged themselves to make public their treaties, conventions, exchange of notes, or other international instruments, made in the past concerning China. They further agreed to notify each other of their future treaties, conventions, and so forth, with China. In this connection, it should be mentioned that China demanded that "the Powers agree not to conclude between themselves any treaty or agreement directly affecting China or the general peace in the Pacific and the Far East without previously notifying China and giving her an opportunity to participate." The British delegate reminded the Chinese that their demand "went a good deal beyond any existing practice of international law." The Japanese delegate recalled that "the sovereign nations had the right of concluding any treaty or agreement between themselves." But a resolution was adopted whereby the powers would refrain from concluding treaties that would infringe the open-door principle.

The settlement of the Chinese Eastern Railway was left to diplomatic channels; meanwhile the powers reserved "the right to insist hereafter upon the responsibilities of China for performance or non-performance of the obligations toward the foreign stockholders, bondholders, and creditors of the Chinese Eastern Railway." For the future of China's railways, the powers expressed their hope for the ultimate "unification of railways into a railway system under Chinese control with foreign financial and technical co-operation." Such were the altruistic contributions of the conference toward helping China, but the conference reminded China of her own responsibilities. For instance, it gave China concrete advice that she should reduce her army because it had been caus-

ing severe drain upon her notoriously bankrupt treasury. This advice was given when the powers agreed to raise China's tariff, and was later put in the form of a resolution, but this was not to be interpreted as an interference with Chinese domestic affairs.

Of course, China demanded that the powers relinquish their extraterritorial rights in China "at the end of a definite period." In response, the conference created an international commission to look into the actual state of affairs, to advise the powers what they might do with regard to their extraterritorial rights. Obviously one could not draw an optimistic conclusion as to their abrogation; the actual conditions in China did not warrant such a conclusion. At any rate, China was obliged to ask the powers to postpone the proposed investigation into the actual state of administration of justice. The Commission was finally convened on January 12, 1926; it continued its session until May 5, when the Commissioners started a tour of inspection through several provinces. Its report was far from encouraging; it recommended certain modifications to minimize difficulties arising from the system of extraterritoriality; it advised the Chinese Government to effect certain reforms in its laws and legal institutions, and it did not favor the relinquishment of the system.

Finally, the Chinese demanded that the leased areas and spheres of influence in their country be abrogated, and that arms and ammunition be not imported into their territory. The conference was unable to agree on any of these demands. Thus, aside from the leasehold of Kiaochow, all the leased areas remain intact. The powers agreed not to create new spheres of influence, but the existing ones remain untouched. Italy prevented any agreement on arms embargo. So much then for what the conference succeeded or failed to achieve on behalf of China.

The Siberian question loomed large at Washington, but its main issue was whether Japan would withdraw her troops from Siberia. The Japanese delegate declared that Japan would withdraw as soon as she could, and this pledge the Japanese Government fulfilled. Likewise the question of Yap was settled by a treaty between the United States and Japan.

We have traced the circumstances leading up to the summoning of the Washington Conference; we have examined the matters discussed by the gathering; and we have analyzed the achievements made by the participating nations. We are now ready for a critical estimate of this international conference, and will begin by presenting the offi-

cial estimates of its accomplishments. President Harding in closing the gathering said, among other things:

"This Conference has wrought a truly great achievement. It is hazardous sometimes to speak in superlatives, and I will be restrained. But I will say, with every confidence, that the faith plighted here today, kept in national honor, will mark the beginning of a new and better epoch in human progress."

Similar sentiments were expressed by the various representatives of the other participating nations. Later the American delegation made its report to the President in which we find the following estimate:

"The sum total of the action taken by the Conference regarding China, together with the return of Shantung by direct agreement between China and Japan, the withdrawal of the most unsatisfactory of the so-called 'Twenty-One Demands,' and the explicit declaration of Japan regarding the closely connected territory of Eastern Siberia, justify the relation of confidence and good will expressed in the Four-Power Treaty and upon which the reduction of armament provided in the Naval Treaty may be contemplated with a sense of security." . . .

Nearly eight years have elapsed since the memorable November 12, 1921, and we have an opportunity to evaluate the conference in a better perspective, especially in view of the crowded events which have followed its close. On the Washington arms treaties we have already presented our view that, in spite of the general lamentation of naval experts of the various signatory powers, these agreements have already contributed toward a betterment of the world. On the post-conference armament development, and, in particular, the failure of the three-power naval conference at Geneva, we have stated that our position is one of optimism. The nations are being educated as to the fallacy of upholding their dignity by arming themselves to the teeth.

But in China chaos has continued to prevail, and the powers have been forced to face difficulties just as before the conference. Patient, watchful waiting seems to be the only way out of the situation. It has been perhaps fortunate for China that the powers have no longer approached her with a united front as in the past; she has had and has an

opportunity to deal with each nation separately. If she proceeds patiently and wisely, there is no reason why she should not be able to free herself from the disabilities imposed on her by foreign powers, but, in order to do so successfully, she must develop and maintain a unified, stable government. Opinion is divided on the recently established Nationalist Government; it may hold its own or it may collapse; nobody can prophesy its outcome one way or the other. Nevertheless, this Government secured the recognition of the American Government and a number of others, and if China succeeds in this respect with all the other nations vitally interested in her, we may justly hope for the better. Yet optimism is not warranted, and pessimism seems prejudicial to Chinese interests; it is for China to prove her case.

Aside from the very gloomy state of affairs in China, the general situation in Pacific international affairs shows a considerable improvement. Consider Japan's relations with America, the British Empire, France, and Russia. The only sore spot still left unhealed in friendly relations between America and Japan is the discriminatory exclusion of Japanese from the United States. The deep resentment of the Japanese against this treatment is not fully appreciated in this country; it is a question which has to be tackled sooner or later. The British and the Japanese have been getting along with no deterioration in their international relationship despite the termination of the Anglo-Japanese Alliance; Australia, once very suspicious of Japan, is now friendly. Likewise Japan enjoys amicable relationships with France and Russia. Of late much has been said on Anglo-American antagonism, and on European hostility against America, but when their relationships are surveyed from the Pacific standpoint, there is no substantial ground for any real danger. Perhaps the recent Pact of Paris will facilitate in the maintaining of general peace in the Pacific region. The Washington Conference ushered in an era of peace; it is for the nations to continue it. The peoples of all the nations bordering the Pacific are anxious to maintain peace, as is clearly attested by their organized international efforts to learn to co-operate in solving their problems, the most conspicuous example being the Institute of Pacific Relations.

## *The Settlement of International Controversies by Pacific Means*

BY FRANK B. KELLOGG

IN THIS PERIOD of great progress in cordial understanding between nations, I am pleased to accept your invitation to discuss the steps taken by the United States, in collaboration with other nations, to advance amicable relations, to remove the causes of war, and to pledge the nations solemnly to renounce war as an instrument of their national policy and adopt instead the principle of the settlement of all disputes by pacific means. No more fitting time could be chosen for this peace movement than the tenth anniversary of the signing of the Armistice which brought to a close the greatest war, the most appalling catastrophe of all the ages.

The best way to abolish war as a means of settling international disputes, is to extend the field of arbitration to cover all juridical questions, to negotiate treaties applying the principles of conciliation to all questions which do not come within the scope of arbitration, and to pledge all the nations of the world to condemn recourse to war, renounce it as an instrument of international policy, and declare themselves in favor of the settlement of all controversies by pacific means. Thus may the illegality of war be established in the world as a principle of international law.

There is one other means, which can be taken by governmental authorities and also by private organizations like yours throughout the world, and that is to inculcate into the minds of the people a peaceful attitude, teaching them that war is not only a barbarous means of settling disputes but one which has brought upon the world the greatest affliction, suffering, and disaster. If the people are minded that there shall be no war, there will not be. Arbitration is the machinery by which peace may be maintained. It can not function effectively unless there is back of it a popular will for peace.

I can not go into detail concerning all the steps which have been taken to extend the principles of arbitration and conciliation as a part of the machinery for the maintenance of peace. In a general way, I can say that when I came into office I found that on account of the war many of our arbitration treaties and treaties of amity and commerce had lapsed and that many of the boards of conciliation under the Bryan treaties had become incomplete or vacant through death or resignation. These boards have been filled and there are now in force 19 of the original Bryan treaties, among

the signatories being included many of the principal nations of the world. We have already negotiated five new treaties and are negotiating many more. We have negotiated with many countries a new arbitration treaty for the settlement of all juridical questions which is an advance over the old form of treaty. In Central and South America practically all of the countries have signed and ratified a general conciliation treaty, to which the United States is a party. Under this treaty, in the event of failure to settle a dispute by diplomatic means or arbitration, the signatory nations agree to submit it to boards of conciliation for examination and report and not to go to war for a reasonable time pending such examination. . . .

Arbitration and conciliation are appealing more and more to the imagination of the peoples of all nations. I deem this movement of surpassing importance in the advancement of world peace. When all nations come to the conclusion that their disputes can best be settled by diplomatic means and, when these fail, by arbitration or commissions of conciliation, the world will have made a great step forward. I realize that treaties of arbitration and conciliation have existed for many years and that in spite of them there occurred the greatest war of all history. But this should not be a cause of discouragement, because to-day world sentiment is stronger for such means of settling international disputes than ever before. I realize also that there are many political questions which can not be arbitrated, although they may be settled by conciliation. I know that national jealousies and ambitions and racial animosities often are the causes of war. These causes of conflict can be eliminated through education, through the development of tolerance, and through the creation of an effective desire for peace.

In addition to these means of insuring universal peace, I know of but one other step, and that is a treaty solemnly pledging all the nations of the earth to condemn recourse to war, to renounce it as an instrument of their national policy toward each other, and solemnly to declare that the settlement of international disputes, of whatever nature or of whatever origin they may be, shall never be sought except by pacific means. This leads me to the discussion of the multilateral antiwar treaty lately signed in Paris.

As you know, the original suggestion of this movement came from Monsieur Briand, Minister of Foreign Affairs of France, in a proposition to the United States to enter into a bilateral treaty with France to abjure war as a means of settling disputes between them. The American Government believed that this grand conception should be extended to all the nations of the world so that its declaration might become a part of international law and the foundation stone for a temple of everlasting peace. I need not discuss the details of this negotiation, which lasted more than a year. All notes exchanged between the nations upon this subject were published from time to time as they were sent by the various powers. It seemed clear that no treaty of such world-wide importance, so affecting the peoples of all nations, marking so great a forward step, could be taken without the support not only of the statesmen but of the press and the people of the world themselves, and, as you know, the multilateral antiwar treaty was negotiated in the blazing light of full publicity. . . .

In the negotiation of this treaty I had the hearty cooperation of the statesmen of other countries, of President Coolidge, of statesmen of all parties, and of publicists throughout the United States. It was not a political move. I consulted with Senators and Representatives and public men, the sanest and wisest of our time, and I can say without the slightest doubt that the treaty meets the matured judgment of the people of the United States.

It was an impressive sight when representatives of 15 nations gathered around the historic table in the French Foreign Office and solemnly pledged their governments before the world to renounce war as an instrumentality of their countries, agreeing to settle all international disputes by pacific means.

The treaty is a simple and plain declaration and agreement. It is not cumbered with reservations and conditions stipulating when a nation might be justified in going to war. Such a treaty, if attempted, would fail because of the complexity of national aspirations and the wide difference of conditions. It contains but two articles, as follows:

"ARTICLE 1. The High Contracting Parties solemnly declare in the names of their respective peoples that they condemn recourse to war for the solution of international controversies, and renounce it as an instrument of national policy in their relations with one another.

"ARTICLE 2. The High Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature or of whatever origin they may be, which may arise among them, shall never be sought except by pacific means."

In the course of the discussion, France raised the question of whether the proposed treaty would in any way conflict with the obligations of the Locarno treaties, the League of Nations, or other treaties guaranteeing neutrality. My reply was that I did not understand the League of Nations to impose any obligation to go to war; that the question must ultimately be decided by each country for itself; that if there was any similar obligation in the Locarno treaties, the United States would agree that all of the powers parties to the Locarno treaties should become original signatories of the present treaty. Belgium, Poland, and Czechoslovakia therefore were brought in as original parties because they were the only signatories to the Locarno treaties outside of the nations included in the negotiations of the antiwar treaty. The following countries were parties to the Locarno treaties: Great Britain, France, Belgium, Germany, Italy, Czechoslovakia, and Poland. The treaty contained a clause undertaking not to go to war, and if there was a flagrant violation by one of the high contracting parties, each of the other parties undertook immediately to come to the help of the party against whom such violation or breach was directed. It, therefore, was simply a matter of law that if any of the parties to the Locarno treaties went to war in violation of that treaty and were at the same time parties to the multilateral treaty, they would violate this treaty also; and that it was a general principle of law that if one of the parties to a treaty should violate it, the others would be released, and would be entirely free and under no obligation to take any action unless they saw fit.

For these reasons the Locarno powers became original signatories, and all of the nations agreed that under these circumstances no modification of the present treaty was needed. It was my expectation that if the treaty was signed, it would be readily adhered to by many, if not all, of the other nations. My expectations have been more than fulfilled. Up to the present time 58 nations have either signed the treaty as original parties, or have adhered to it or have notified the Department of their intention to adhere to it. It is my belief that all the nations of the world will adhere to this treaty and make it one of the principles of their national policy. I believe that this is the first time in history when any treaty has received the approval of so many nations of the world.

There are no collateral reservations or amendments made to the treaty as finally agreed upon. During the negotiation of this treaty, as in the case of other treaties, questions were raised by

various governments and discussed, and in many of my notes I explained the legal effect or construction of the treaty. There is nothing in any of these notes, or in my speeches sent to the signatory powers during the negotiations, which is inconsistent with, or changes the meaning of, the treaty as finally signed. Finally the countries were satisfied that no modification of the treaty was necessary to meet their views. . . .

What were the benefits to be furnished? An unconditional agreement not to go to war. This is the recognition of a general principle that if one nation violates the treaty, it is deprived of the benefits of this agreement and the other parties are therefore necessarily released from their obligations as to the belligerent state.

I have seen from time to time claims, on the one hand, that this treaty is weak because it does not provide the means for enforcing it either by military or other sanctions against the treaty-breaking state and, on the other hand, that through it the United States has become entangled in European affairs and, while under no express obligation, is under moral obligation to join other nations and enforce the treaty by military or other assistance. Neither of these positions is correct. I know that men will differ on the question of whether it is better to provide sanctions or military agreements to punish a violator of the treaty or military alliances to enforce it. But whatever the merits of this controversy may be, as I have already said, I do not believe the United States or many nations in the world would be willing to submit to any tribunal to decide the question of whether a nation had violated this treaty or irrevocably pledge themselves to military or other action to enforce it. My personal opinion is that such alliances have been futile in the past and will be in the future; that the carrying out of this treaty must rest on the solemn pledges and the honor of nations; that if by this treaty all the nations solemnly pronounce against war as an institution for settling international disputes, the world will have taken a forward step, created a public opinion, marshaled the great moral forces of the world for its observance, and entered into a sacred obligation which will make it far more difficult to plunge the world into another great conflict. In any event, it is not at all practical for the United States to enter into such an obligation.

It has also been said that the treaty entangles us in the affairs of Europe. I can not understand why such an argument should be made. It no more entangles us in the political affairs of foreign countries than any other treaties which we have made and if, through any such fear, the United States

can not take any step toward the maintenance of world peace, it would be a sad commentary on our intelligence and patriotism. But, it is said, we are under moral obligations, though not under binding written obligations, to apply sanctions to punish a treaty-breaking state or to enforce its obligations. No one of the governments in any of the notes leading up to the signing of this treaty made any such claim, and there is not a word in the treaty or in the correspondence that intimates that there is such an obligation. I made it perfectly plain, whatever the other countries might think, that the United States could not join in any such undertaking. In the first speech I made on the subject, which was afterwards circulated to the nations, I said: "I can not state too emphatically that it (the United States) will not become a party to any agreement which directly or indirectly, expressly or by implication, is a military alliance. The United States can not obligate itself in advance to use its armed forces against any other nation of the world. It does not believe that the peace of the world or of Europe depends upon or can be assured by treaties of military alliance, the futility of which as guarantors is repeatedly demonstrated in the pages of history." I believe that for this same reason Great Britain and some of the other nations of Europe rejected the treaty of mutual assistance. Whether the Locarno treaties will be construed as agreements to apply sanctions, I can not say; but, whether they are or not, I do not believe that it is possible to enforce such a treaty. I know of no moral obligation to agree to apply sanctions or to punish a treaty-breaking state unless there is some promise to do so, and no one can claim that there is such a promise in this treaty. . . . I, for one, believe the United States has always had a deep interest in the maintenance of peace all over the world. Why should not our Government and our people feel a deep interest in this question? In modern times no great war can occur without seriously affecting every nation. Of course the United States is anxious for the peace, prosperity, and happiness of the people of Europe as well as of the rest of the world. Because we did not approve of the Treaty of Versailles and the League of Nations in all respects, it has been assumed by some that we no longer take any interest in Europe and world affairs. I, for one, do not accept this as a just estimate of our national character and vision.

By some this grand conception of a world pledge for peace is considered visionary and idealistic. I do not think that all the statesmen of Europe and of the world who have solemnly pledged their nations against the institution of war can be



called visionary idealists. Idealists they are, of course. Idealists have led the world in all great accomplishments for the advancement of government, for the dissemination of learning, and for the development of the arts and sciences which have marked the progress of this great growing age. To-day probably more than at any time in recorded history, there is a longing for peace—that we may not again go through the horrors and devastation of a world war. I am sure that the

people of this country are willing to try this last and greatest step, the solemn pledge of peoples and of nations. I can not believe that such a declaration, entered into, not in the frenzy of public excitement but in the cool deliberation of peoples, can fail to have a world-wide moral effect. I believe that this treaty is approved by almost unanimous sentiment in the United States and in the world. Such approval means advancement in the ideals of government and of civilization. . . .

## *TWO SUCCESSES IN FOREIGN POLICY*

THE INTERVENTION in Latin America that Theodore Roosevelt had started by his rewriting of the Monroe Doctrine was continued by William Howard Taft and not terminated by Woodrow Wilson. Wilson's ambiguities about nonrecognition only succeeded in arousing ill will, particularly in Mexico, where he had landed troops and whose revolutionary government he refused to recognize.

The upheavals which racked Mexico during this period were part of the revolt against the domination of foreign interests in Mexico's economic life and the concentration of land ownership at the expense of the Indian villages. That revolt found institutional expression in Article 27 of the Mexican Constitution of 1917. By its terms, subsoil deposits, including oil, were claimed by the government; the foreign acquisition of Mexican resources was restricted; and Mexican church properties were nationalized. When the constitution was implemented by the oil law of 1925 (requiring all concessionaires to accept fifty-year leases in lieu of their perpetual grants; to agree to abide by Mexican law; and to refrain from asking protection by their home governments) Americans demanded that the United States intervene. Formal diplomatic relations were maintained, but both parties stood on their rights under international law while Mexican credit declined and American investors suffered.

The Coolidge administration resisted the demands for armed intervention. Instead, in 1927, soon after the Mexican government had begun to enforce the anticlerical as well as the eco-

nomic clauses of Article 27, President Coolidge appointed his Amherst classmate, Morgan partner Dwight W. Morrow (1873-1931), ambassador to Mexico. Morrow's unconventional diplomacy and his willingness to assume the goodwill and sincerity of the Mexican government bore fruit. Here were to be found the beginnings of the later spectacularly successful "Good Neighbor Policy." For his predecessor's barrage of disquisitions on international law, Morrow substituted the attitude which shows so clearly in this, his first report to his Secretary of State. Formal diplomacy had done no more than stiffen Mexican intransigence. Morrow ceased dispatching notes. Instead, he dealt with Mexican officials as men willing to be as reasonable as he. In the case of the oil law of 1925, he suggested the legal approach: rather than propose legislative repeal of the act, an outward and visible sign of submission to foreign protest, he urged the early adjudication of test cases then before the Mexican Supreme Court. President Calles's assurance that the Court would reject retroactive decrees marked a significant victory for Morrow's type of negotiation. In like fashion, Morrow proceeded to deal with Calles directly on the agrarian issue and on the problem of reconciling the Mexican government and the Vatican.

In this way, Morrow laid a firm foundation, for he indicated that a policy of confidence and mutual accommodation was the only practical alternative to force. In June, 1930, in an address before a group representing businessmen from



many nations, he summed up his attitude—and his achievement—in these words:

Our relations with foreign nations are not very different from our relations with each other in family, church or state. They must be based on understanding. What a difficult thing it is to see that the other man may be honest as well as yourself!

If we can live in our respective homes loyal to our cities, States and nations, yet ready to attribute to other men an honest purpose, it is more important than the most solemn treaties we may sign on parchment.

The selections here reprinted are from U.S. Department of State, *Foreign Relations: 1927*, Vol. III (Washington, 1928).

The address of Secretary of State Henry L. Stimson (1867– ) before the Council on Foreign Affairs in February, 1931, presents officially the Latin American policy of the United States, particularly in the Central American area abutting on the Panama Canal. The United States had intervened in Nicaragua, occupying Nicaraguan territory and supervising elections in 1929 and 1930. As the depression intensified after 1929, even the most firmly seated governments in Latin America were overthrown. The United States stood confronted by the necessity for a choice: Was it to act contrary to the precedents of the immediate past, or should it revert to former policy? The Hoover administration decided to take the latter course and, in this address, Stimson enlarges

not only on that question, but also on the State Department's definition of the Monroe Doctrine. That principle, Stimson explains, continues to be a cornerstone of American foreign policy but it sets the United States over against Europe, not the nations of Latin America. Thus, the Roosevelt Corollary of the Monroe Doctrine was repudiated.

During the Wilson administration, the United States had abandoned a long-established policy of recognizing *de facto* governments when it denied recognition to a Mexican government established by "force and violence." The present administration now returns to earlier and sounder practice, in this way restoring political stability. So far as the Central American states are concerned, however, the policy of recognition for *de facto* governments is tempered by treaty: the five republics have agreed not to accept regimes established by *coup d'état* even if that should later be regularized by constitutional process. This pledge has diminished the number of revolutions in middle America and helped establish free elections. A final step in improving inter-American relations has been the United States practice of embargoing arms shipments to rebels against a recognized government. Stimson also indicates how the word of the United States has been kept in difficult situations.

The selection here reprinted is from a pamphlet issued by the U.S. Department of State as *Publications: Latin American Series*, No. 156 (Washington, 1932).

## On Mexico

BY DWIGHT MORROW

THE AMBASSADOR IN MEXICO (MORROW) TO THE SECRETARY OF STATE

[Mexico,] November 8, 1927

MY DEAR MR. SECRETARY: I have now been in Mexico a little over two weeks. A great deal of time, as you so well know, has been taken up in necessary formalities. I have had an opportunity, however, to talk with several business men of Mexico, including Mr. Legorreta, Director of the

Banco Nacional de Mexico; Mr. Woodull, the Mexican Manager of the American Smelting and Refining Co.; Mr. Hugh Rose, the Managing Director of Santa Gertrudis Mines; Mr. H. Weldon, local Manager of the Bank of Montreal; Mr. G. R. G. Conway, Managing Director of the Mexican Light & Power Co.; Mr. Matton, of the British American Tobacco Co.; Mr. Hilary N. Branch, local representative of Huasteca Petroleum Com-

pany; and Messrs. Hogan and Basham, prominent American lawyers here. . . .

When I made my first call upon the Acting-Minister of Foreign Affairs, as referred to in despatch No. I, of October 31st, Mr. Estrada, after courteously expressing his pleasure that I had come to Mexico, took occasion to say to me that it was the desire of President Calles that I should take matters up personally with him. He further stated that in Mexico the system of administration was a "Presidential system" and that as the President alone had the authority to make decisions on behalf of the Government he hoped that I would at all times discuss with President Calles matters of difference between the Governments. Mr. Estrada's manner of expressing this opinion made quite an impression upon Mr. Schoenfeld, who accompanied me upon this formal call and acted as interpreter.

On Saturday, October 29th, I presented my letter of credence to the President. What formally took place on that occasion is also referred to in despatch No. I, of October 31st. After I had read my brief remarks and the President had replied, he signified that he desired to have a conversation with me. I sat down beside him and we had four or five minutes' conversation. Mr. Martinez de Alva acted as interpreter. In this conversation the President expressed the hope that I would feel free at all times to come directly to him, stating that he was not a diplomat, and that he thought many of the matters as to which there were differences of opinion between the two governments could be readily adjusted in personal meetings, but that diplomatic notes tended to separate further the Governments. I expressed my appreciation of the cordiality of my reception by his Government and the people of Mexico, and stated that I would be very glad to avail of the courtesy extended to me of talking things over with him personally from time to time. He then repeated to me that he did not want me to consider this invitation to take things up with him personally as merely a formal invitation, that he did earnestly desire that the matters in difference between the Governments be settled amicably, and he thought this could best be accomplished by taking questions up personally. . . .

Accordingly, I went to the President's home this morning at 11 o'clock. Again I went alone, reaching this decision after consultation with the Embassy staff. I felt that he might talk more frankly and I might get a clearer picture of his mind if I showed my confidence in him. I think the result fully justified this position.

My talk with the President this morning lasted

perhaps an hour and a half. Mr. Robinson and Mr. Smithers were present, Mr. Smithers acting as interpreter. Mr. J. Reuben Clark and myself had made a very careful study of the record with reference to oil, going back particularly to the Carranza decrees, to the decision in the Texas Oil Company case and to the Warren-Payne record in which so much emphasis was laid upon respecting and enforcing the principles of the decisions in the Texas case to the effect that Paragraph 4 of Article 27 of the Constitution was not retroactive. Mr. Clark and I had both felt that it would be very difficult to find a compromise that would really maintain the principle of the Warren-Payne meetings and of the State Department correspondence unless there could be an affirmation of the Texas Oil Company case. It also seemed to us both that an affirmation of the Texas Oil Company case was more or less a natural thing for the courts to do because substantially the same principle was involved in the so-called Carranza decrees and in the legislation of 1925.

The President opened the conversation this morning by asking me directly what solution I thought could be found for the oil controversy. I told him that I thought an almost necessary preliminary to any solution would be a clear decision of the Supreme Court following the Texas Oil Company cases. I told him that I had been a lawyer, and it was not easy to get out of the habit of talking as a lawyer, and asked him to bear with me while I explained to him the Texas Oil Company case as I understood it. I then quite slowly, with the interpreter translating to him sentence by sentence, explained to him that the Carranza decrees had attempted to hold Paragraph 4 of Article 27 of the Constitution of 1917 to be retroactive as to the subsoil of oil lands, that those who had brought the *amparos* had asserted, first, that President Carranza had no official power to act by decree in the way he had acted, and, second, that even if he had been given such official power it would be violative of article 14 of the Constitution, which provides that no law shall be given a retroactive effect. I explained to him further that the Supreme Court of Mexico in the Texas case had clearly held that the question of Carranza's official power to act by decree did not arise because the decrees issued him and called in question had been officially ratified by the legislative body, and that, therefore, his decrees had the full effect of laws. The Court then went on to hold that these laws (made by Carranza decree and legislative ratification) could not constitutionally be given retroactive effect. In the Texas case, therefore, as in the pending cases, it was not a decree of the

executive but a law of Congress, and executive acts thereunder, which were held to be violative of Article 14 of the Constitution. I further said to the President that I had been expecting that the courts would hand down a decision sustaining the Texas cases and that if such a decision came down I thought the ground would be cleared for a satisfactory adjustment of the oil matter.

He then gave me quite a full description of his troubles with the oil companies. He said that the Government of Mexico had never wanted to confiscate any property. Least of all did they want to confiscate the oil properties; that they needed the revenues, and obviously "they did not want to commit suicide"; that the act of 1925 was a most necessary piece of legislation at the time because the country was in considerable disorder and there was an extreme radical wing whose wishes had to be met in that legislation; that he had thought the grant of the 50-year right as good as a perpetual right to take out the oil, and that such a grant would satisfy every practical purpose, but that the oil companies had not co-operated with him at all, but in fact their representatives had boasted all over Mexico that they did not need to obey the laws of Mexico. To this I responded that, without defending the attitude of the oil companies toward Mexico or toward the Mexican courts, there was a very real principle which they had asserted and which the American Government had felt it necessary to assert on their behalf: that a 50-year right to take oil out of a piece of ground might be fully as good as a perpetual right, but it was certainly arguable that if one administration could cut the right down from a perpetual right to a 50-year right, a later administration might cut it down from a 50-year right to a 40-year right, or a 30, or a 10 or a 1-year right, and that it seemed to me in the interests of Mexico as well as in the interests of the United States that that question should be cleared up.

The President then asked me if I thought a decision of the court following the Texas case would settle the main controversy in the oil dispute. I told him I thought such a decision would remove the main difficulty. He then rather startled me by saying that such a decision could be expected in two months. I said to the President that it was important that during the time the cases are pending before the court no overt act which could be called confiscation should take place; that if difficulties were not to increase, pending a decision by the courts, there should be no change in the *status quo*.

I think it proper to say that there was nothing in the President's conversation to indicate that he

intended to direct the courts to make a decision. In fact, he would doubtless assert that he had no such power. His words were entirely consistent with the fact that he had knowledge of what the courts already had in mind. At the same time it must be remembered that it is generally believed in this country that the courts are not independent of the Executive. While this may seem quite shocking to those trained in American jurisprudence and English jurisprudence, it is not an essentially different situation than has existed in all early governments and is substantially the same situation that existed in England two or three hundred years ago. The King's Bench was originally more than the name of the court; it was the bench that belonged to the King, and administered justice for him.

After the talk about the oil, the President then took up the question of the railroad. He told me that he was determined to see a better railroad administration, that he had asked Sir Henry Thornton, of the Canadian Government Railroad, to come down and make a report to him, and that even though it meant sweeping out a lot of holders of jobs who were entrenched in the railroad he was prepared to do so. He also spoke of his desire to expedite the claims settlements. He spoke of his earnest desire to improve agricultural conditions in Mexico and in this connection stated that Mexico was not ready yet for industrial development, that he hoped that a betterment of agriculture here would lead [*tend?*] to create trade with the United States, that industrial products should come into Mexico from the United States during the next generation, and that Mexico would not be ready for industrial development until long after his time.

I returned from the President's Castle to the Embassy. A half hour later Mr. Robinson called upon me and told me that the President was very anxious that none of the oil people should know at all about our conference, that his greatest difficulty in dealing with the oil question in a proper way had been the oil people themselves, and that if they knew that a Supreme Court decision was likely to come down within a short time they would again begin to intrigue.

Despite the informality of this whole conversation I am setting it out somewhat fully to you. I think it is of extreme importance that the oil people shall, if possible, be kept from complicating the situation until the courts have had an opportunity to act.

I have nothing to add about the general political situation down here to what has been sent you in despatches. I think it is true that President Calles

has been greatly strengthened by the rigorous method in which he has handled the recent revolutions. There are some people who feel that the revolts were not real revolts. I think, however, the best opinion is that it was a question of who struck first; it was a case of "thy head or my head," which again was pretty much the rule in English history until well past the Tudor days.

There is difference of opinion as to whether President Calles and General Obregon will remain together, but I think there are no real indications at present that they have quarreled. A year, however, in Mexico is a long time. I must say that my personal impression, for whatever it is worth, is that President Calles seemed to me to be a man who wanted to do as much as he could during this last year of his term and then get out. The pressure, however, upon him by those who share the advantages of office will certainly be very great, and much may happen as a result thereof.

In both of my talks with the President I have been impressed by his strength, his earnestness, and his apparent sincerity. I think he is a strong man, sincerely devoted to his country and capable of going a long way in either the right or the wrong direction. . . .

With kindest regards [etc.]

Dwight W. Morrow

THE UNDER SECRETARY OF STATE (OLDS) TO THE  
AMBASSADOR IN MEXICO (MORROW)

Washington, November 16, 1927

DEAR MR. MORROW: Your long letter addressed

to the Secretary arrived in due course. After reading it we took it across the street, where it now is. We expect to follow this course with all important communications which may come from you.

Naturally the report of your preliminary conversations is exceedingly interesting. I can not help feeling that you are on the right track and have already made real progress. At any rate it delights us all to see the old method of long-armed dealing scrapped, and the contrary method of direct personal contact tried. I am sure that the lines along which you are working are absolutely sound.

The intimation about the Supreme Court decision is, of course, important. We have had intimations on this subject before, but this one seems more reliable than the others. Anyhow, I agree that the oil companies ought not to get off the reservation for the time being. They have been very quiet lately. I told them when you left that there would not be anything doing until you found your way about in Mexico, and that it might be several weeks before anything affecting their interests happened. Meanwhile they would have to be patient. They have, as you know, called attention to one or two moves made by the Mexican Government, which seemed to them rather disturbing, but they have not asked for any conferences here. We shall bear in mind your suggestion that nothing be said to them concerning the Supreme Court decision. . . .

With warm regards [etc.]

Robert E. Olds

## *The United States and the Other American Republics*

BY HENRY L. STIMSON

DURING THE PAST TWO YEARS widespread economic depression and consequent unemployment have brought instability and unrest to many of the countries of the Western Hemisphere. Since March, 1929, there have been revolutions in no less than seven Latin American republics, resulting in the forcible overthrow in six of them of the existing governments. These changes, and the armed contests by which some of them have been accompanied, have presented to the State Department of this country a rapid succession of critical problems for decision. It was inevitable in such a situation that criticism of our decisions should be excited, and it has been.

Therefore, this evening, I shall place before you from the standpoint of the State Department a

brief statement of the facts as well as of the underlying principles and reasons upon which some of these recent decisions have been based. In particular, I shall discuss the principles by which we have been guided in the recognition of the new governments which have arisen and also the principles which have underlain our action in the regulation of the sale and transportation of arms and munitions to the countries which have been involved in strife.

As a background for this discussion a brief review of the general policy of the United States towards the other republics of this hemisphere during the past century is pertinent. That policy, in its general conception, has been a noble one. From the beginning we have made the preserva-

tion of individual independence of these nations correspond with our own interest. This was announced in the Monroe Doctrine and has been maintained ever since. That doctrine, far from being an assertion of suzerainty over our sister republics, was an assertion of their individual rights as independent nations. It declared to the world that this independence was so vital to our own safety that we would be willing to fight for it against an aggressive Europe. The Monroe Doctrine was a declaration of the United States versus Europe—not of the United States versus Latin America. . . .

People are sometimes prone to forget our long and honorable fulfillment of this policy towards our younger sister nations. It was our action which obtained the withdrawal of French imperialism from Mexico. It was our influence which provided for the return from Great Britain of the Bay Islands to Honduras, and the Mosquito Coast, including Greytown, to Nicaragua. It was our pressure which secured the arbitration of the boundary dispute between Great Britain and Venezuela and which later secured by arbitration the solution of serious disputes between Venezuela, Germany, and Italy. Between the republics themselves, our influence has constantly been exerted for a friendly solution of controversies which might otherwise mar their independent and peaceful intercourse. To speak only of recent matters, I may refer to the long-standing Tacna-Arica dispute between Chile and Peru, and the open clash between Bolivia and Paraguay. During the past seven years our good offices have resulted in the settlement of eight boundary disputes between eleven countries of this hemisphere.

In our successive Pan American conferences, as well as in the Pan American Union, the fundamental rule of equality, which is the mainstay of independence, has been unbroken. Action is taken only by unanimous consent. No majority of states can conclude a minority, even of the smallest and weakest. This is in sharp contrast to the practice which prevailed in the former Concert of Europe, where only the great powers were admitted on a basis of equality. It was also at variance with the original organization of the Covenant of the League of Nations, where it was proposed that a majority of the seats in the Council should be permanently occupied by the Great Powers.

While such recognition of their equal rights and national independence has always been the basic foundation upon which our policy towards these republics has rested, there is another side of the picture which must be borne in mind. This

basic principle of equality in international law is an ideal resting upon postulates which are not always and consistently accurate. For independence imposes duties as well as rights. It presupposes ability in the independent nation to fulfill the obligations towards other nations and their nationals which are prescribed and expected to exist in the family of nations. The hundred years which have ensued since the announcement of our policy towards these republics have contained recurring evidence of how slow is the progress of mankind along that difficult highway which leads to national maturity and how difficult is the art of popular self-government. Years and decades of alternations between arbitrary power at one time and outbreaks of violence at another have pointed out again and again how different a matter it is in human affairs to have the vision and to achieve the reality.

Furthermore, the difficulties which have beset the foreign policy of the United States in carrying out these principles cannot be understood without the comprehension of a geographical fact. The very locality where the progress of these republics has been most slow; where the difficulties of race and climate have been greatest; where the recurrence of domestic violence has most frequently resulted in the failure of duty on the part of the republics themselves and the violation of the rights of life and property accorded by international law to foreigners within their territory, has been in Central America, the narrow isthmus which joins the two Americas, and among the islands which intersperse the Caribbean Sea adjacent to that isthmus. That locality has been the one spot external to our shores which nature has decreed to be most vital to our national safety, not to mention our prosperity. It commands the line of the great trade route which joins our eastern and western coasts. Even before human hands had pierced the isthmus with a seagoing canal, that route was vital to our national interest. Since the Panama Canal has become an accomplished fact, it has been not only the vital artery of our coastwise commerce but, as well, the link in our national defense which protects the defensive power of our fleet. One cannot fairly appraise American policy towards Latin America or fully appreciate the standard which it has maintained without taking into consideration all of the elements of which it is the resultant. . . .

#### RECOGNITION

The recognition of a new state has been described as the assurance given to it that it will be permitted to hold its place and rank in the char-

acter of an independent political organism in the society of nations. The recognition of a new government within a state arises in practice only when a government has been changed or established by revolution or by a *coup d'état*. No question of recognition normally arises, for example, when a king dies and his heir succeeds to the throne, or where as the result of an election in a republic a new chief executive constitutionally assumes office. The practice of this country as to the recognition of new governments has been substantially uniform from the days of the administration of Secretary of State Jefferson in 1792 to the days of Secretary of State Bryan in 1913. There were certain slight departures from this policy during the Civil War, but they were manifestly due to the exigencies of warfare and were abandoned immediately afterwards. This general policy, as thus observed, was to base the act of recognition not upon the question of the constitutional legitimacy of the new government but upon its *de facto* capacity to fulfill its obligations as a member of the family of nations. This country recognized the right of other nations to regulate their own internal affairs of government and disclaimed any attempt to base its recognition upon the correctness of their constitutional action.

Said Mr. Jefferson in 1792:

"We certainly cannot deny to other nations that principle whereon our own Government is founded, that every nation has a right to govern itself internally under what forms it pleases, and to change these forms at its own will; and externally to transact business with other nations through whatever organ it chooses whether that be a king, convention, assembly, committee, president, or whatever it be. (*Jefferson to Pinckney, Works, Vol. III, p. 500.*)" . . .

With the advent of President Wilson's administration this policy of over a century was radically departed from in respect to the Republic of Mexico, and, by a public declaration on March 11, 1913, it was announced that—

"Cooperation (with our sister republics of Central and South America) is possible only when supported at every turn by the orderly processes of just government based upon law, not upon arbitrary or irregular force. We hold, as I am sure that all thoughtful leaders of republican government everywhere hold, that just government rests always upon the consent of the governed, and that there can be no freedom without order based upon law and upon the public conscience and approval. We shall look to make these principles the basis of mutual intercourse, respect, and helpfulness be-

tween our sister republics and ourselves. (*Foreign Relations of the United States, 1913, p. 7.*)"

Mr. Wilson's government sought to put this new policy into effect in respect to the recognition of the then Government of Mexico held by President Victoriano Huerta. Although Huerta's government was in *de facto* possession, Mr. Wilson refused to recognize it, and he sought through the influence and pressure of his great office to force it from power. Armed conflict followed with the forces of Mexico, and disturbed relations between us and that republic lasted until a comparatively few years ago.

In his sympathy for the development of free constitutional institutions among the people of our Latin American neighbors, Mr. Wilson did not differ from the feelings of the great mass of his countrymen in the United States, including Mr. Jefferson and Mr. Adams, whose statements I have quoted; but he differed from the practice of his predecessors in seeking actively to propagate these institutions in a foreign country by the direct influence of this Government and to do this against the desire of the authorities and people of Mexico.

The present administration has refused to follow the policy of Mr. Wilson and has followed consistently the former practice of this Government since the days of Jefferson. As soon as it was reported to us, through our diplomatic representatives, that the new governments in Bolivia, Peru, Argentina, Brazil, and Panama were in control of the administrative machinery of the state, with the apparent general acquiescence of their people, and that they were willing and apparently able to discharge their international and conventional obligations, they were recognized by our Government. And, in view of the economic depression, with the consequent need for prompt measures of financial stabilization, we did this with as little delay as possible in order to give those sorely pressed countries the quickest possible opportunities for recovering their economic poise.

Such has been our policy in all cases where international practice was not affected or controlled by preexisting treaty. In the five republics of Central America, Guatemala, Honduras, Salvador, Nicaragua, and Costa Rica, however, we have found an entirely different situation existing from that normally presented under international law and practice. As I have already pointed out, those countries geographically have for a century been the focus of the greatest difficulties and the most frequent disturbances in their earnest course towards competent maturity in the discharge of their international obligations. Until some two

decades ago, war within and without was their almost yearly portion. No administration of their government was long safe from revolutionary attack instigated either by factions of its own citizens or by the machinations of another one of the five republics. Free elections, the cornerstone upon which our own democracy rests, had been practically unknown during the entire period. In 1907 a period of strife, involving four of the five republics, had lasted almost without interruption for several years. In that year, on the joint suggestion and mediation of the Governments of the United States and Mexico, the five republics met for the purpose of considering methods intended to mitigate and, if possible, terminate the intolerable situation. By one of the conventions which they then adopted, the five republics agreed with one another as follows:

"The Governments of the high contracting parties shall not recognize any other government which may come into power in any of the five republics as a consequence of a *coup d'état*, or of a revolution against the recognized government, so long as the freely elected representatives of the people thereof, have not constitutionally reorganized the country."

Sixteen years later, in 1923, the same five republics, evidently satisfied with the principle they had thus adopted and desiring to reinforce it and prevent any future evasions of that principle, met again, reenacted the same covenant, and further promised each other that even after a revolutionary government had been constitutionally reorganized by the representatives of the people, they would not recognize it if its president should have been a leader in the preceding revolution or related to such a leader by blood or marriage, or if he should have been a cabinet officer or held some high military command during the accomplishment of the revolution. Some four months thereafter, our own Government, on the invitation of these republics, who had conducted their meeting in Washington, announced, through Secretary Hughes, that the United States would in its future dealings with those republics follow out the same principle which they had thus established in their treaty. Since that time we have consistently adhered to this policy in respect to those five republics. . . .

Since the adoption by Secretary Hughes, in 1923, of the policy of recognition agreed upon by the five republics in their convention, not one single revolutionary government has been able to maintain itself in those five republics. Twice, once in Nicaragua and once in the case of Guatemala, a revolutionary leader has succeeded in grasping

the reins of government for a brief period. But in each case the failure to obtain recognition has resulted in his prompt resignation, on account of his inability to borrow money in the international markets. Several times within the same period a contemplated revolution has been abandoned by its conspirators on the simple reminder by a minister from this country or one of the other republics that, even if they were successful, their government would not be recognized; and undoubtedly in many more cases has the knowledge of the existence of the policy prevented even the preparation for a revolution or *coup d'état*. In every one of these cases the other four republics have made common cause in the efforts of the United States to carry out their policy and maintain stability. When one compares this record with the blood-stained history of Central America before the adoption of the treaty of 1923, I think that no impartial student can avoid the conclusion that the treaty and the policy which it has established in that locality has been productive of very great good. . . .

Furthermore, it may be noted that one of the dangers which might be apprehended from this policy of recognition adopted by the five Central American republics under the treaty of 1923 has not materialized. One of the most serious evils in Central America has been the fact that throughout the history of those republics, until recently, it has been the habitual practice of the president who held the machinery of government to influence and control the election of his successor. This has tended to stimulate revolution as the only means by which a change of government could be accomplished. The danger was therefore manifest that this treaty of 1923 might result in perpetuating the autocratic power of the governments which were for the time in possession. As a matter of fact this has not happened. On the contrary, significant improvement has taken place in election practice. The Government of Nicaragua of its own motion has sought and obtained the assistance of the United States in securing free and uncontrolled elections in 1928 and 1930. The Government of Honduras, in 1928, without any such assistance, conducted an election which was so free that the party in power was dispossessed by the opposition party; and a similar free election has apparently occurred in 1930. For nearly one hundred years before 1923 free elections have been so rare in Central America as to be almost unique. Of course, it is too early to make safe generalizations, but it would seem that the stability created by the treaty of 1923 apparently has not tended to perpetuate existing autocracies but, on



the contrary, to stimulate a greater sense of responsibility in elections.

#### TRAFFIC IN ARMS

I will now pass to the subject of the policy of this Government in respect to the export of arms and munitions to countries which are engaged in civil strife. Twice during the present Administration we have had to make important decisions and take important action in respect to this subject. The first of these occasions was in March, 1929, when a military insurrection broke out in the Republic of Mexico. This insurrection was of serious nature and extent. It involved disturbances in many of the Mexican provinces and much fighting and bloodshed. Acting under a joint resolution of our Congress, adopted in 1922, this Government maintained an embargo upon the exportation of all arms and munitions which might reach the rebels. At the same time, it permitted the sale and itself sold arms and ammunition to the established government of Mexico, with which we were then and had been for a number of years in diplomatic relations. In about three months the insurrection was suppressed, and I think it can be fairly said that it is due in no slight degree to our action in this matter that the feelings of hostility on the part of Mexico to the United States which had existed ever since the intervention of President Wilson against Huerta in 1913 were finally ended and the relations of the two countries became friendly and cordial.

The second occasion was in October, 1930, when armed insurrection had broken out against the Government of Brazil. In the same way in which we had acted towards Mexico, we permitted that government to purchase arms both from our Government and from our nationals in this country; and, when the Ambassador of Brazil brought to our attention the fact that arms were being purchased in this country for export to the rebel forces fighting against the recognized government, we placed an embargo against the exportation of such arms. Two days later the Government of Brazil suddenly fell, the immediate cause being the revolt of its own garrison in Rio de Janeiro.

In placing the embargo upon the exportation of arms to the Brazilian rebel forces, our Government acted under the same joint resolution of our Congress of 1922 and with the same purpose and upon the same policy as had guided our action in the case of Mexico and in other cases where action has been taken under that resolution. That purpose was "to prevent arms and munitions procured from the United States being used to pro-

mote conditions of domestic violence" in countries whose governments we had recognized and with which we were in friendly intercourse. This was the purpose and policy as stated by our Congress in the language of the resolution itself. . . .

Under the law of nations the duty of neutrality does not arise until the insurgents have assumed the status of a belligerent power between whom and the mother country other governments must maintain impartiality. This occurs when a condition of belligerency is recognized either by the parent state itself or by the governments of other nations. Such a situation arose in our Civil War when the Confederate States, having occupied exclusively a portion of the territory of the United States and having set up their own capital at Richmond, were recognized as belligerents by the nations of Europe. It has not arisen in any of the recent revolutions of Latin America, whether successful or unsuccessful. The revolutionists in Brazil had not been recognized as belligerents either by the Brazilian Government, by the United States, or by any other nation. Until that happens, under the law and practice of nations, no duty of impartiality arises either on the part of our Government or our citizens. Until that time there is only one side towards which, under international law, other nations owe any duty. This is so well established as to be elementary. It was recognized in the clause of the treaty of 1928 which I have just quoted. . . .

The domestic legislation of the United States prescribing the duties of its citizens towards nations suffering from civil strife is following the line of these predispositions and is blazing the way for the subsequent growth of the law of nations. I am not one who regards this development of American domestic legislation, exemplified by the joint resolution of 1922, as a departure from the principles of international law or as a reactionary or backward step. The reverse is true. Although I have had little occasion to deal with the subject of international law from an academic viewpoint, it has happened that at different times during my life I have occupied public offices where I came in official contact with international conditions before they were remedied by the beneficent effect of the joint resolution of 1922 and its predecessor, the joint resolution of 1912. . . .

I am glad that I had a share in the drafting of the joint resolution of 1912, and I have studied closely the progress of its remedial effect upon the conditions which it was designed to cure. I am glad to find that that effect has been beneficial. By our own Government it has been found so beneficial that in 1922 its scope was extended from civil



strife in America to civil strife in certain other portions of the world. By 1928 its beneficent influence was so generally recognized that at the great Pan American Conference which was held in Habana in that year, all of the nations of this hemisphere embodied in the treaty of 1928 as a definite and compulsory legal obligation the same policy which we had been able in 1912 to initiate as a discretionary power of the American Presi-

dent. I believe that this marks the line which the law of nations will eventually follow throughout the world. When it does so, I believe that international law and practice will have achieved another step forward towards the ultimate peace of mankind. It is my hope that the decisions of the State Department during the past two years will be found to have assisted in this beneficent progress.

## Part Eleven

# THE THIRD AMERICAN REVOLUTION



# INTRODUCTION

## 1. THE ELECTION OF FRANKLIN DELANO ROOSEVELT

FOR AMERICANS who took pride in the possession of their own homes and automobiles, who sent their children to high schools and colleges, who moved in a complex and satisfying social round of fraternal meetings, church suppers, and outdoor games, to see—as was happening so widely during 1930–33—their security shaken, their possessions and small savings melting away, their lives becoming more secret and lonely, their children leaving home before educations had been completed—these were profound traumatic experiences. The great majority of Americans were the humble, the hard-working, the thrifty—the workers, the small farmers, the little retailers, professional and technical men, the smaller manufacturers. It is small wonder that they flocked to the support of the new President and his policies. Franklin D. Roosevelt and the New Deal restored the confidence of the typical American in himself and in his country's destiny. This was achievement, even if many of the programs failed or fell short of their purpose and even if the end-results seemed to threaten unknown perils. Americans had at least learned that their political institutions and Constitutional processes could bend without breaking, and that what a people needed was courage—and that they had.

*The Campaign of 1932.* The depression was in its third year when the presidential contest of 1932 took place. The Republicans renamed President Hoover and Vice President Curtis as their standard-bearers. The Democrats nominated Governor Franklin D. Roosevelt of New York for the presidency and Speaker John N. Garner of Texas for the vice presi-

dency. Roosevelt's campaign captured the country's imagination. Beginning in the spring of 1932, he traveled more than 25,000 miles and visited almost every state in the Union; and he talked openly and freely of fundamental economic problems. One clear-cut distinction between the positions of the two candidates quickly began to emerge. Hoover attributed the depression to international factors; Roosevelt tended to stress the difficulties and faults in our own economy. It was hard to assume—and none but the most partisan did so—that Roosevelt was hostile to the American capitalist system. But he did look forward to a capitalist system severely modified and limited, hedged around closely in the interests of the security of the workingman, farmer, small homeowner, and small investor. And its activities were to be directed so completely to the attainment of social rather than individual ends that to many who had been brought up on the concepts of a laissez-faire society and an automatically self-adjusting economy a real revolution threatened.

*The Third American Revolution.* These, as it turned out, were not false prophets. A revolution was started by the New Deal—not a revolution in the violent, turbulent sense, but a revolution nevertheless. The whole concept of the state, or national government, underwent a metamorphosis. The state had previously been a passive or impartial force, seeking to stand aloof from the contests in the market place, or at best offering only its mediation to see that principles of justice and equity were preserved; and it had refused to interfere significantly in the

interests of the security and the welfare of its laboring peoples. Now it became the interventionist state. It imposed on the free business enterpriser all sorts of controls and regulations; it entered openly into business itself, often as competitor with private corporations; it used its great fiscal and financial powers to redistribute wealth and to create income; it committed itself to an elaborate program of social security that offered protection, in time, to the whole population against the mischances of unemployment, invalidity, and sudden death, and from the cradle to the grave. The laissez-faire state with only a skeletal apparatus of offices and agencies had become the social-service state with a vast and intricately contrived and permanent machinery of officials and bureaucrats.

And political power, too, had shifted. Previously political power had been in the hands of the middle class—the industrialists, the bankers, the larger farmers. Now political power was concentrating more and more in the hands of the lower middle class and the workers. Those who voted for Franklin D. Roosevelt in 1932, 1936, 1940, and 1944 came from the smaller farmers throughout the country; from the urban dwellers who toiled as workers and salaried employees; from small distributors, small manufacturers, and those on the WPA rolls. Interestingly enough, this took place without a break-up and redistribution in national party formations and without the appearance of a workingmen's political party.

*From a Nationalist to an Internationalist*

*Orientation.* Furthermore, the revolution took place despite the fact that the pivot of its operations changed. The New Deal started out by being essentially nationalist in its outlook and interests, and continued so until 1937. From 1937 on, it became increasingly internationalist. And yet the fundamental political and social philosophy remained the same. The American state was to be used for security and welfare; this could be done by re-ordering our domestic economy without any real concern over what was happening outside our shores—so ran the thinking and planning of the New Deal up to 1937. The American state was to be used for security and welfare; but we could not be free to handle the problems of high employment and of improving standards of living until the whole world was made safe from aggression; and freedom from want and fear could not be assured Americans unless all peoples were similarly guaranteed these rights—thus ran the philosophy of the New Deal from 1937 on. The same groups, by and large, who had supported the New Deal in its first stage followed its leadership in the second.

As the presidential campaign of 1932 drew out its term, it became apparent that Roosevelt was to be elected by an overwhelming majority. And so it turned out. He received 22,800,000 popular votes to Hoover's 15,800,000, and 472 electoral votes to Hoover's 59. The Republican ticket carried only the six states of Maine, New Hampshire, Vermont, Connecticut, Pennsylvania, and Delaware. The Democrats also elected heavy majorities to both houses of Congress.

## 2. THEORY AND TACTICS OF THE NEW DEAL

*Theory of the New Deal.* Some of the New Deal policies were understood and acted upon at once; some were adopted only to be abandoned later; some were originally primary and then were pushed into the background. Some were improvisations devised on the spot;

and some went as far back as Populism and the New Freedom for their inspiration. Always, however, there existed the thought that the responsibility of public authority for the welfare of the people was clear and that the intervention of the state was justifiable.

The theoretical bases of New Deal policy may be put down in this fashion:

1. Capital plant at home had presumably over-expanded as far as the normal requirements for agricultural and industrial goods were concerned; investment therefore was no longer to be the exclusive concern of private banking. This theory was pushed most energetically in the field of agriculture, where limitation of production became the basis of policy. That it also was extended to industry was evident from the codes of "fair competition" written during 1933-35 under the National Industrial Recovery Act. Under these, many industries, in the process of policing themselves, were permitted to provide for rigorous controls over the use of existing machinery and over new-plant expansion. The idea also colored trade-union policy, for unions were allowed to impose limitations upon production through so-called feather-bed jobs, full-crew requirements, and similar devices. From this conception of overexpansion there followed the New Deal theory of social investment as complementary and sometimes in opposition to private investment.

2. Prices were being "managed," or they were "sticky" in significant areas of business operations. The New Deal held that this was due to monopolistic practices and to imperfect competition, that is to say, to conscious interference with the free movement of prices on the part of corporations. A bold attack on monopoly practices was therefore in order.

3. Labor had an inadequate share of the national income on the one hand, and unequal bargaining powers in industrial relations on the other. Both conditions could be remedied by compelling the legal recognition of trade unions and by legislation fixing minimum wages and maximum hours of work.

4. Business enterprises in many fields had become "overcapitalized," in the sense that their fixed charges due to capital costs were higher than would permit the concerns affected to operate profitably. Since such costs

did not adjust easily and quickly to changed market conditions, the difficulties of total market adjustment were intensified. Debt revisions were therefore in order.

5. The public-utilities industry, furnishing electric power and light, which was notably under corporate control, was not favorably disposed to a vast expansion program to reach potential users and isolated communities. At this point was introduced a bold piece of social engineering—the Tennessee Valley Authority.

6. The toll taken by unemployment, cyclical as well as technological (although on the latter point there was much debate), was very great. There were other insecurities which philanthropy and private savings were inadequate to cope with: old age, invalidity, child dependency, sudden death. Security to the American population against these perils was a prime concern of government.

7. There were dark spots in our economy: inadequate housing for low-income earners, the plight of sharecroppers and agricultural laborers, unemployed youth. Here too was a field for state intervention.

8. The financial mechanism of banking and credit was too powerful an agency to be left entirely in private hands. Banking had to be made at least a semipublic function, so that banking policy could lead positively in controlling the ups and downs of business fluctuations.

9. The world market was no longer functioning properly; high tariff walls, import quota systems, foreign governmental controls, and the manipulations of foreign exchange prevented the usual absorption of American surpluses in foreign trade. Our cotton, cereals, tobacco, oil, copper were piling up in warehouses to derange markets at home. Two lines of attack were indicated: controlled production, and the elimination of those blocks that were hindering the orderly processes of world trade.

*Tactics of the New Deal.* So ran the New Deal analysis. From this there followed cer-

tain programs, of which the following were the outstanding:

1. The restoration and maintenance of prices. Many attacks on the problem were launched: the dollar was devaluated; gold was purchased from abroad; limitations were imposed on the production of agricultural products, petroleum, and coal; codes of fair competition in industry were written to eliminate cutthroat methods. The greatest success was met with in the case of agriculture, although here crop loans and subsidies were also required for the purpose of making production control effective.
2. The reduction of debt. Private debts had become unduly burdensome, notably within the context of a deflationary price situation. The New Deal sought to come to grips with this problem in two ways: by raising prices, and by writing down the face value of debt in places where price change itself could not be entirely and immediately effective. For agriculture it created a new fiscal agency (the Federal Farm Mortgage Corporation) which was to make possible the exchange of privately held agricultural long-term paper for semipublic (or public-guaranteed) paper. For homeowners it created a new fiscal agency (the Home Owners' Loan Corporation) for a similar purpose. For businessmen, corporations, and municipalities, it radically changed the bankruptcy law to permit those who were insolvent to come to an understanding with their creditors quickly and at small legal cost.
3. The revival and expansion of credit. To pump short-term and long-term funds into enterprise, state intervention was imperative. The commercial banks, because of their non-liquidity, were not in a position to extend loans for working capital. The agencies of long-term credit—savings banks, insurance companies, trust companies, title and mortgage companies—seeing their earlier investments unproductive, feared to assume further risks. The New Deal jumped into the breach. It expanded the powers and operations of the Reconstruction Finance Corporation (created

in 1932 to open commercial banks and help them achieve liquidity quickly). It established virtual public control over the Federal Reserve System, so that the system could be induced by government policy to expand (and contract) credit. It obtained for the Board of Governors of the Federal Reserve System the power to lower (and raise) the minimum legal reserves required of member banks. It got for the same agency the right to raise (or lower) the margin requirements for security purchases, thus controlling to an extent the amount of credit flowing into brokers' loans. It used the Reconstruction Finance Corporation to make direct loans to private business and to municipalities and other public corporations for housing, electric power plants, and the like.

4. The raising of the purchasing power of labor. Labor, confronted by shrinking opportunities of employment, was forced to sell its services cheaply. Sweated industries had reappeared and child labor had increased. The key to the rehabilitation of labor was to be chiefly its own united strength. The National Labor Relations Act therefore ordered employers to bargain with the workers' own trade unions and to give up practices that prevented labor organization. Closed shops became more and more common; and also industrial practices and standards were modified and improved through labor-management cooperation. To defend those incapable of effective organization—children, women, the unskilled—minimum-wage and maximum-hour legislation and the abolition of child labor were aimed at. After several failures these objectives were achieved in the Fair Labor Standards Act of 1938.

5. The relief of the needy, the protection of dependents, and social security. Wholesale unemployment, illness and invalidity, and the unrest of youth were the results of the depression. The relief of distress was an imminent public duty, and the New Deal experimented with this problem in many ways. It lent generously to the states for straight

outdoor relief. It created a federal agency (the Public Works Administration) to extend credit to public and quasi-public authorities to finance long-term public construction projects. It wrote Social Security legislation under which direct federal appropriations and federal matching grants-in-aid were made to the states to provide for the unemployed and the permanently needy (the aged, the blind, dependent and crippled children). It devised a significant code under which, as a result of contributions by employers, unemployment funds were built up in the states; and also, from equal contributions by employers and workers, an insurance fund from which were to be paid annuities to workers upon retirement. It created work for the temporary needy and unemployed in short-term projects financed by the Federal government (under the Works Progress Administration).

6. The construction of homes. The New Deal recognized that the building of decent homes for low-income earners was an outstanding social need; it therefore established an agency (the United States Housing Authority) which, with government financing and subsidies, was to assist quasi-public authorities to create low-cost housing.

7. The protection of the investor and the saver. To defend the property rights of the American investor the New Deal set up the Securities and Exchange Commission and gave it wide powers to supervise the issuance of new securities by corporations, to obtain for investors adequate information about the financial practices of corporations and their directors and officers, and to regulate the functioning of brokers and the security exchanges, or markets, themselves. Similarly, the Federal Deposit Insurance Corporation was devised to guarantee deposits in savings banks accounts up to \$5,000.

8. The rehabilitation of the electric power industry. Believing that an outlet for savings and a work of social reconstruction could be achieved in an expanded electric light and

power industry, the New Deal created the Tennessee Valley Authority. The stated purposes were the rehabilitation of the population of the Tennessee Valley and the establishment of an experiment in the public operation of electric light and power. Focusing its attention on this industry as an example of banking domination, the New Deal also provided for the elimination of unnecessary holding companies.

9. The revival of foreign trade. The decline of foreign trade was a characteristic of our unbalanced economy. The New Deal sought to revive American overseas commerce; and for this purpose it created the Export-Import Bank to finance the flow of goods and even to extend credits to foreign governments. But the New Deal was equally interested in the restoration of world trade generally. Congress was therefore prevailed upon to permit the writing of reciprocal trading agreements with foreign nations as an executive function. Through the agency of the State Department (and without Senate participation) a large number of such commercial treaties was drawn up, the net effect of which was the measurable lowering of tariff barriers. These agreements also contained most-favored-nation clauses.

10. Pump priming. When private enterprise failed to respond immediately or when business activity became sluggish, the New Deal proceeded to lend and spend. This it called "priming the pump"; in other words, the Federal government boldly engaged in deficit financing in an effort to raise national income. It lent to distressed banks, railroads, insurance companies, mortgage corporations, and industrial concerns; and to farmers, homeowners, the states, municipalities, and newly created public authorities. It spent—by subsidies, grants-in-aid, outright appropriations—in order to rehabilitate marginal farmers, to finance the building of ships, to tear down slums and put up low-rent housing, to furnish old-age pensions, to construct public buildings, and to provide flood control, roads, and



reforestation. It not only gave people work, but at the same time added to the social wealth of the nation. This meant a steady increase in the national debt, a situation which the New Deal faced with equanimity because its theory of deficit financing was based on the premises that governmental spending made for an in-

crease in national income and that an increase in national income made greater taxation possible. The nation was going into debt, it was true; but the debt was largely held at home, and, as a result of the debt, the country's assets had been increased. (So argued, at any rate, these new economics doctors.)

### 3. THE NEW DEAL AGENCIES

Such were the general New Deal policies and tactics designed to restore the American economy and make possible its smooth functioning, this time with more equity as far as the great masses of the country's population were concerned. A fuller description of some of the legislative enactments and the agencies set up is now in order.

*Agriculture.* Because its condition was critical, agriculture received the immediate, and the continuing, attention of the New Deal. The goals for recovery and reform were the following: (1) The establishment of parity prices, that is, the restoration of the farmer's purchasing power to the position it had held in the immediate prewar years. The period of August, 1909, to July, 1914, was fixed on as the base period, the assumption being that at that time the prices farmers paid were in balance with the prices they received. (2) The establishment of parity income. This concept later on replaced the concept of parity prices. It was the intention of the Department of Agriculture to obtain for agriculture the relative income, as compared with total national income, which it had been receiving in the prewar years. (3) The adjustment of farm production to meet market requirements. This meant chiefly adjustment to domestic consumption. Production was therefore curtailed and where surpluses appeared, they were to be held off the market by means of government loans. Justification for this attitude was subsequently found in the concept of the "ever-normal granary." (4) Soil conservation and improvement of land use. (5) Debt

reduction and security against foreclosure at the hands of mortgagees. (6) Rural relief and rehabilitation for submarginal farmers and tenants.

The first legislative enactment to carry out the major intention of this program was the Agricultural Adjustment Act, which was passed in May, 1933, and continued on the statute books until January, 1936. It must be repeated that the underlying conception was that agricultural distress was due to overproduction, not to underconsumption; therefore the growers of the basic staples were to be induced to restrict plantings, ultimately on the basis of a quota system. As compensation they were to receive subsidies ("benefit payments") and crop loans, the government holding the surpluses off the market. This was for the purpose of raising the prices of agricultural goods; and they were raised. The original AAA tied together the subsidies with a processing tax on millers, meat packers, cotton ginners, and so on, and, principally for this reason, was found unconstitutional by the Supreme Court.

To get around the objections of the Court there were passed the temporary Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1938. In both these measures the justification for governmental action was found in the necessity for protecting the land resources of the nation and for encouraging the utilization of improved methods of cultivation. Again subsidies—this time directly—and crop loans were to be the basic instruments for obtaining

compliance. The purpose of the commodity loans was to lay a floor below which farm prices could not fall.

Other major agricultural programs have already been noticed. The Emergency Farm Mortgage Act of 1933 was followed by the Farm Mortgage Refinancing Act of 1934, which created the Federal Farm Mortgage Corporation, under the direction of the Farm Credit Administration. The FPMC was given a revolving fund of two billion dollars in bonds, guaranteed as to principal and interest, which it could exchange for the bonds held by federal land banks and which it also could invest directly in farm mortgage loans. The FPMC succeeded in obtaining interest reductions and in scaling down the principal of farm obligations. After a series of unsuccessful experiments with resettlement projects, the Farm Security Administration was finally set up in 1937 to devise ways and means of bringing relief to distressed small farmers and agricultural laborers; the chief method employed was rehabilitation through social-service activities. This, too, worked out well.

*Industry.* The revival of industry was to be pushed chiefly through price-raising expedients; but industry was to police itself, in order to eliminate unfair methods of competition. Despite the fact that a major commitment of American industrial policy was the Sherman Anti-Trust Act, the New Deal was prepared to welcome the cartelization of American business. For this purpose, the National Industrial Recovery Act was passed in June, 1933. It set up a National Recovery Administration, under whose aegis every branch of American business was to form code authorities, and these code authorities were to draw up principles and practices guaranteeing "fair competition." Most of these codes, when completed, incorporated methods for establishing minimum prices and restricting production. In May, 1935, the Supreme Court—incidentally, to everyone's relief—found the NIRA unconstitutional on three grounds: that Congress could not dele-

gate its legislative powers to private individuals, that is, the code authorities; that the Federal government could not legislate about industrial practices if these practices did not directly affect interstate commerce; and that a national emergency did not exist. The administration then returned to a vigorous enforcement of the antitrust laws.

*Labor.* The NIRA had incorporated and had made possible the establishment of certain fundamental rights of labor. Section 7(a) of the law had given workers the right to establish collective-bargaining agencies of their own choosing and had promised them minimum rates of pay, maximum hours of work, and other safeguards. The forty-hour week was generally established; minimum wages in most industries were put at between \$12 and \$15 a week; and the labor of children under sixteen years was banned.

The outlawing of the NIRA by the Supreme Court compelled the writing of new labor enactments. These took the form of the National Labor Relations Act in 1935 and the Fair Labor Standards Act (Wages and Hours Act) in 1938. The first was a great triumph for the country's workers and, indeed, was one of the outstanding achievements of the New Deal. It was frankly labor-oriented in that it was concerned only with industry's duties toward the workers: employers were obliged to bargain collectively with their employees and to give up all those industrial practices which might prevent the employees from properly realizing the objective of free trade-unionism. A specified number of unfair practices on the part of employers was accordingly rendered illegal. Also, when the workers were ready, they could call for an election to determine which trade union was to represent them in their negotiations with the employers. And finally, the National Labor Relations Board was set up, with wide powers. The board could decide which was to be the appropriate unit for the purposes of collective bargaining, that is, whether the unit was to be an employer unit, a craft unit, a plant

unit, or even a regional unit. The board was to conduct elections. It was to certify the trade unions duly chosen by the majority of workers involved as exclusive bargaining agencies. And it was to prevent unfair labor practices by the use of quasi-judicial powers similar to those exercised by the Federal Trade Commission in its own field.

The NLRB quickly received the cooperation of most employers. In a group of notable decisions in 1937, the Supreme Court validated the law. Indeed, the Court stretched the Constitutional concept of "interstate commerce" to such a degree that the NLRB's intervention in all labor disputes was made possible. Labor itself rose to its opportunity, and whereas in 1929 there were only 4,330,000 trade unionists in the country, at the end of the 1930s their numbers exceeded 11,000,000. Improvements in wage rates followed; and so did improvements in industrial relations, the outstanding new development being labor-management cooperation.

The Fair Labor Standards Act of 1938 was one of the country's most important pieces of welfare legislation. It established the forty-hour week, with time and a half for overtime, for all the country's industries. It provided for the creation of boards in all trades and businesses, which from time to time were to draw up minimum wage scales in order to "reach . . . the objective of a universal minimum wage of 40 cents an hour for each industry." And it virtually made possible the abolition of child labor by departmental order (in this case, the order of the Department of Labor).

*Social Security.* The Social Security Act of 1935 (amended in 1939) permitted the United States to catch up with those European countries that had pioneered in the field of social security some twenty-five years earlier. The act made provisions for the following: (1) An Old-Age and Survivors' insurance program, administered by the Federal government. Many categories of workers, in establishments employing eight or more persons, were

to be assured retirement allowances at sixty-five years of age and after. The fund was to be built up by matching contributions from the workers and employers; and this contribution was initially put at 1 percent, for each, of wages and earnings up to \$3,000 a year. Benefit payments were to be based on marital status, length of coverage, and the size of the over-all contributions. Dependent survivors were also to be provided for. (2) A program of unemployment compensation, to be administered in every case by the states themselves. Through the agency of a federal payroll tax of 3 percent on payrolls, as a compulsory device, states were to be encouraged to set up unemployment-insurance schemes. It is enough to say that all did so; that in most cases the contributions to the maintenance of these funds were coming from the employers alone; and that benefit payments ran from fourteen to sixteen weeks, with an initial maximum weekly benefit of about \$15 and a minimum weekly benefit of \$5. (3) Federal grants to states, more or less on a matching basis, to take care of outstanding problems of dependency. These included assistance to the needy aged, the needy blind, and to children under sixteen deprived of parental support; and also grants for the establishment of maternal and child-health services, medical and other services for crippled children, and welfare services for the care of homeless, dependent, and neglected children. A Social Security Board was provided to administer most of the provisions of the law. In May, 1937, in three important decisions, the Supreme Court gave its stamp of approval to the Act.

*Currency and Credit.* Currency expansion and bank-credit inflation were major preoccupations of the New Deal. In April, 1933, the United States formally went off the gold standard when an executive order stopped the free movement of gold both within and without the country. Congress gave its authorization through the passage of the Gold Repeal Joint Resolution of June, 1933, which

canceled the gold clause in all federal and private obligations. A step in the direction of increasing the amount of money in circulation was taken with the passage of the Thomas Amendment to the AAA in May, 1933. This permitted the President to issue up to \$3,000,000,000 worth of United States notes; to reduce the gold content of the dollar as much as 50 percent; and to accept silver from foreign governments on the account of the intergovernmental debts, as well as to buy American-mined silver. In January, 1934, Congress enacted the Gold Reserve Act, and under it the President fixed the value of the dollar at 59.06 cents in terms of its old parity; in other words, the government was permitted to buy gold anywhere at \$35 an ounce. The hopes here were two: to push prices up by devaluation and to give the United States an advantage in foreign trade.

Bank-credit expansion was linked with banking reform. The Banking Act of 1933 and the Banking Act of 1935 provided for the following changes in the country's banking policy: (1) A Federal Deposit Insurance Corporation, already referred to, was set up. (2) Banks belonging to the Federal Reserve System were to cut themselves off from their securities affiliates. (3) The government's hold on the Federal Reserve System was greatly extended through the creation of the Board of Governors of the System, all of whom were to be appointed by the President. (4) The Open-Market Committee was to be dominated by the Board of Governors and was to have control over the powers of expanding and contracting credit. (5) The Board of Governors was also given the right to raise (or lower) reserve requirements of member banks and to raise (or lower) margin requirements on security purchases. Credit expansion was pushed also through government loans, notably by the use of the RFC.

*Power and Housing.* The Tennessee Valley Authority was established in May, 1933; its powers have been alluded to above. In the

domain of power control, extensive reforms were launched. The Public Utility Act of 1935 had two functions: to expand the authority of the Federal Power Commission over all utilities transmitting electricity across state lines; and to give the SEC the right to put an end to holding companies in the utility field.

Many acts were passed in the field of housing. The Home Owners' Loan Act of April, 1934, came to the relief of existing and would-be small homeowners, by permitting the refinancing of outstanding mortgage debt and by creating facilities for the financing of new home construction. The National Housing Act of June, 1934, set up the Federal Housing Administration to standardize methods of construction and financing for multiple dwellings. The United States Housing Authority (under an act of 1937, amended in 1938) was to make loans to local public bodies, created by state law, to provide low-rent housing and slum clearance.

*Public Works and Relief.* The New Deal sought to stimulate recovery by embarking on elaborate public-works projects. For this it received authority in the National Industrial Recovery Act, and the Public Works Administration was accordingly set up and given \$3,000,000,000. But the programs moved tardily, with the result that in 1935 the administration began to put its reliance increasingly on the less expensive "made-work" projects of the Works Progress Administration. It was a considerable length of time before a proper program was devised to handle the case of the temporarily unemployed. In May, 1933, the Federal Emergency Relief Administration was set up; in October, 1933, there appeared the Civil Works Administration; and finally, in July, 1935, the Works Progress Administration. The WPA functioned well, not only making possible considerable additions to public plants but also providing employment as a substitute for outdoor relief. As for the unemployables, they were being handled by local home-relief agencies.

*Financing the New Deal.* The New Deal sought to charm back recovery by lending and spending on a vast scale. Up to 1935, the government made no serious effort to finance its spending program through taxation; and

though after 1935 there was a good deal of tinkering with revenue acts, no new tax avenues were really explored. Deficit financing meant chiefly federal borrowings; as a result, the national debt steadily mounted.

#### 4. THE PROGRESS OF RECOVERY

*The Course of Business.* The New Deal's spending and easy-money programs and its own confidence in the essential soundness of America's institutions slowly spread the processes of revival. Agriculture was the first to respond, but the country's industry was not slow to follow; so that up to the midsummer of 1937 (except for a brief recession in 1934) the course of business activity moved upward. By 1937, the general level of production reached the average normal of the 1920s. This is not to assume that recovery was complete, for it was not. In fact, recovery was slower in the United States than in any other industrial country. Thus industrial production was almost as high as it had been in 1929; but on the basis of past performances it should have been higher, for the population of the country was greater and the rate of productivity in industry was perhaps 25 percent higher.

The upshot was that the spring of 1937, according to the American Federation of Labor's estimates, still saw 9,700,000 persons out of work. Why was this? A number of reasons may be adduced. (1) The government's spending and lending policy frightened off new business investment. To this degree the popular charge that there was a strike of capital was true. (2) Whereas labor had before been receiving an inadequate share of the national income, under the New Deal its share probably was too great. This increased the costs of production. (3) There was no real revival in our foreign trade, largely because of the national-economic policies pursued by most of the countries of Europe.

In agriculture, thanks to the subsidy, loan,

and controlled-production measures of the New Deal, definite improvement had occurred. In 1932 the cash income from the sale of farm products had been \$4,300,000,000; in 1937, the income from sales and government payments was \$8,500,000,000 (government payments, or subsidies, were in the neighborhood of \$500,000,000 yearly). The ratio of prices received to prices paid—the index of agricultural well-being—had moved up hearteningly. In 1932 the ratio stood at 61; that is, the farmer's dollar, in terms of the goods and services he could get for it, was worth 61 cents. In 1937, the ratio stood at 93. Farm real-estate values also mounted.

*The National Income.* Also, by 1937 and again by 1939, the country had recovered much of the position lost as a result of the depression in terms of its national income. From the low of 40 billions of dollars reached in 1932, national income went up to 71.2 billions in 1937; and after the recession of that year, national income was restored to 69.4 billions in 1939. But this did not bring the country back to where it had been before the depression had set in; the reasons were that the population had increased by ten millions in the decade since 1929 and that the productivity of the nation's industrial plants had also improved. That is to say, if the recovery had been complete and full use of the nation's manpower and resources had been made, the real income should have been in the neighborhood of at least 100 billions of dollars.

*Effects of Deficit Financing.* In another area the success of the New Deal's policy was only of mixed character. It has already been

pointed out that the New Deal was spending large sums of money. Government bonds, bills, and notes for these sums flowed into the banks. The Board of Governors of the Federal Reserve System then followed a cheap money policy. They bought government bills and notes, and this led to an increase in the reserves of the member banks. Member bank reserves also grew through the inflow of gold from abroad. By these processes, the base of the credit pyramid was expanded. It was hoped that increased reserves would lead to increased bank deposits (as a result of commercial loans made by banks); and that increased deposits would lead to an expansion of employment and therefore greater spending.

But it did not work out that way. Deposits did grow because of government deficit financing. The banks, however, showed their increasing deposits in their investment portfolios rather than their loan portfolios. They were in other words, maintaining themselves in an amazingly liquid form; and the first hint of contraction of business encouraged them to liquidate their loans and discounts. Also, government's unbalanced budget and its taxation of corporate profits, without making due

allowances for losses, led to a growing conservatism on the part of businessmen as far as the inception of risk-taking enterprise was concerned. It may be said, very properly, that there was a strike of capital—but this was not due so much to political hostility as it was to the uncertainties and the fears possessing business. The New Deal, in other words, appeared to be incapable, by its fiscal policy, of restoring that confidence in the business community that was really the basis of a real revival.

The key to the New Deal successes was therefore this: it was to be found not nearly so much in new capital borrowings by business or in any real expansion in bank credit. It was due largely to deficit financing; and when New Deal spending slowed down—as happened from midsummer 1937 to late spring 1938—then a real business recession set in. Only the resumption of a spending policy on the part of the New Deal made possible the revival of the summer of 1938. And the great war expenditures that began to appear with 1940 accounted for the impressive increases in industrial production and national income and for the elimination of unemployment.

## 5. THE COST OF THE NEW DEAL

*The Debt.* What did all this cost? From 1930 on, the road of deficit financing had been pursued—the New Deal notably stepping up the tempo after 1933—so that in the 1930s the federal debt was increased from about 16 billions of dollars to more than 40 billions. During the first years of the decade, the deficits which the Federal government encountered resulted from a decline in receipts from tax sources, whereas, under the New Deal, they had resulted rather from an increase in expenditures. During the years 1931-1933 federal expenditures were in the neighborhood of 4 billions of dollars annually; in 1934 they were 6 billions, and in 1937, 8.4

billions. The New Deal insisted that the deficit was not entirely incurred because of "made-work" activities. Thus for the years 1931-38 the total deficit was 20 billions. But against this amount were to be balanced assets arising from recoverable loans and expenditures on public-works construction; these came to 12 billions of dollars.

*Taxes.* At the same time that deficits increased, so did taxes. Federal taxes in 1931 came to 2.7 billions of dollars; in 1938 they stood at 5.9 billions. In 1931, federal taxes represented 4.5 percent of national income, whereas in 1938 the percentage was 9.5. Income-tax rates were pushed up; and in

1936, as a further tax on corporations, an undistributed-profits tax was levied. Because of the great hostility engendered, this device was abandoned in the Revenue Act of 1938. In 1930 at least 95 percent of all federal tax revenues were produced by income taxes, tobacco taxes, and customs duties; in 1938, these sources contributed 58 percent. The New Deal developed new tax sources, notably

manufacturers' excise taxes, liquor taxes (because of repeal), and payroll taxes.

At the same time, it is important to note that the Federal government was not called upon to pay as much, proportionately, for its borrowings. The yield on United States government bonds was 3.65 percent in the second quarter of 1929 and only 2.7 percent in the last quarter of 1937.

## 6. LABOR UNDER THE NEW DEAL

In one sector there were real gains: organized labor grew, its rights were being safeguarded, and it was being paid better than ever before in its history. Too well, in fact, some authorities were prepared to argue. Interestingly enough, one of the important reasons for the extraordinary increase in trade-union membership (the other was the National Labor Relations Act) was the breaking out of a bitter internecine, schismatic dispute within the American Federation of Labor.

*The CIO.* The leader of the schismatics was John L. Lewis, the ambitious and dynamic head of the United Mine Workers. The 1920s had seen a slackening of effort on the part of trade-union leaders. They had become involved in business investments, had frowned on social-security programs, and were incapable of coping with or indifferent to the great horde of the unorganized in the mass-production industries. One of the important reasons for this was that most union leaders were spokesmen for highly skilled craftsmen who were fearful of the inroads being made into their own special interests by the assembly-line technique. John L. Lewis did not belong in the company of these less alert leaders. He had taken advantage of Section 7(a) of the NIRA to press unionization in the coal industry. He was more sympathetic to the problems of the workers in the mass-production industries (steel, automobiles, rubber, oil refining, aluminum) because so

many of his own members were more and more entering the class of semiskilled.

In any event, Mr. Lewis challenged the top leadership of the A.F. of L. at its 1935 convention when he forced a vote on a resolution demanding that organizational work be pushed on industrial lines in the basic industries instead of on craft lines. This meant that all men in the automobile industry, for example, were to be organized into an automobile union, instead of being unionized as machinists, teamsters, stationary engineers, and the like. Mr. Lewis was defeated, but he found enough support at the convention to encourage him to form the Committee for Industrial Organization within the A.F. of L. The CIO went ahead and, before 1936 was over, it had the backing of ten national and international unions, some of which had begun on their own account to do missionary work among the unorganized.

This led to open warfare. In 1936 the executive committee of the A.F. of L. suspended the ten unions that had joined the CIO; the next year the A.F. of L. convention authorized the expulsion of those unions which refused "to return to the ranks of our movement." Nine of the unions were so expelled in 1938, and the gage of battle was down. Lewis accepted it when he and his followers formally met in convention late in 1938 and, in November, set up the rival body of the Congress of Industrial Organizations. To a great extent the A.F. of L. clung to its basic

role of organizing the skilled workers in craft unions, disregarding industrial groupings; while the CIO devoted itself to industrial unionism without paying attention to craft differences. But this did not prevent both bodies from cutting across the lines, so that a certain amount of dual unionism developed. What was profoundly significant was that the A.F. of L. became a fighting organization and explored the new opportunities for unionization as energetically as did the CIO. As a result, great gains were won by both, and when Pearl Harbor struck, each could claim at least 4,000,000 dues-paying members.

*CIO Successes.* The CIO's initial successes were unprecedented. It went into automobiles, revitalized the United Automobile Workers of America (which had been established in 1935), and challenged at once one of the greatest citadels of industrial power in the country, the General Motors Corporation. In December, 1936, strikes were called, and the sit-down (subsequently declared illegal) was used with telling effect. After forty days of bitter struggle, General Motors gave in and signed an agreement recognizing the union as the bargaining agency for its members in all the company's plants. The other automobile companies except Ford fell into line; even Ford capitulated in time. Next came steel, where a Steel Workers' Organizing Committee was formed, initially largely financed by the coal miners. Steel had been the hardest nut for trade unionism to crack as far back as 1892, when the disastrous Homestead Strike had destroyed the workers' organization. So completely did the SWOC do its work in the case of so-called Big Steel that in March, 1937, without a strike, the United States Steel Corporation signed an agreement much like that of the automobile industry. But the newer steel companies—they were called Little Steel and included the Republic Steel Corporation and the Bethlehem Steel Corporation—refused to yield, and bitter strikes swept the steel regions during May–July, 1937. Violence on both sides was

common, with a good deal of vigilantism present. The stubborn resistance of the Little Steel leaders led to the failure of the strike in July. Other industrial areas where the CIO unions were successful were the Eastern maritime workers, the Western longshoremen, the rubber workers, and the aluminum workers.

*A.F. of L. and CIO Rivalry.* Meanwhile, the rivalry between the A.F. of L. and CIO grew in intensity. Both engaged in mutual recriminations, the A.F. of L. being charged with giving haven to racketeers, and the CIO being charged with permitting communists to infiltrate its ranks. Both charges were true. The driving ambitions of John L. Lewis attracted general attention, and his interests and pretensions were frequently associated with the purposes of trade unionism in general. In the second Roosevelt administration his ardor toward the New Deal cooled and he openly broke with the President, supporting Wendell L. Willkie in 1940. His tactics estranged one of his best supporters, the International Ladies Garment Workers, and this union left the CIO and rejoined the A.F. of L. in 1940. Mr. Lewis found increasingly less support among CIO unions, and the personal bitterness that developed led to a strange move on his part. He withdrew from the CIO in 1942, and in 1943 made application for readmission to the A.F. of L.! In 1946, the miners were back in the fold again. The A.F. of L. continued under the leadership of William Green, and the CIO was now led by Philip Murray, who had been one of Lewis's vice presidents in the coal miners' union.

The possibility of fusion was remote, although it is important to note that the rivalry between the two bodies occupied relatively little of the energies of trade-union leaders. Trade unionism in the country went ahead on seven-league boots, in many industries obtaining virtually 100 percent membership and writing closed-shop agreements with increasing frequency. This, then, was one of the outstanding—if not the most ironical—



achievements of the New Deal: it had made the American workers completely trade-union conscious and had converted them (except, perhaps, for the Australasians) into the most militant body of organized workers in the world. The trade unionists of the United States were not radical politically, only a small minority supporting a program of even mild state socialism; they were not entering politics as workers in their own parties; but they did fight constantly for improvement in working conditions. This was particularly true in connection with wage rates.

*Wages and Productivity.* Trade-union successes may have been too great as far as the effects on the total economy were concerned. Professor Sumner H. Slichter, for example, was able to argue that wage rates went up much more sharply than did productivity, the result being excessive additions to cost.

This was likely to make the business enterpriser embarking on new ventures more cautious than he would ordinarily be. Professor Slichter pointed out that in the period 1921-26 physical productivity per man-hour in manufacturing increased 4.3 percent a year; in the period 1933-37 the increase was only 1.7 percent a year. Also, between 1921 and 1926, hourly earnings in manufacturing rose 8.4 percent; between 1933 and 1937, they rose 40 percent. Said Professor Slichter: "Physical productivity per man-hour grew twice as fast after 1921 as after 1933 or 1934, but wage rates went up twice as rapidly in the second period as in the first. These differences were not entirely compensated by price movements." And he came to this position: "For the time being, however, one must conclude that the spread of unionization tends to reduce the marginal return of capital."

## 7. THE NEW DEAL CONTINUES IN POWER

*The Campaign of 1936.* The hostility to the New Deal, particularly as recovery continued on its uneven way, became more outspoken; but to organize this opposition was not easy. Nothing proved this more surely than the outcome of the presidential election of 1936. The Republicans had met first in June, 1936, and had come out flatly against the New Deal and all its works. Their platform opened with the words, "America is in peril," and in this spirit they submitted the principles and the achievements of the New Deal to a bitter arraignment. While there had been a good deal of preconvention scrambling for votes, there was no real opposition to the candidacy of Governor Alfred M. Landon of Kansas. He was named on the first ballot, and with him was nominated Frank Knox of Illinois for the vice presidency.

Mr. Roosevelt dominated the proceedings at the Democratic convention, although he did not appear in person. The New Deal was in a defiant mood because of Supreme Court

hostility (the Court had found unconstitutional the NIRA and the AAA, among other measures) and the growing disapproval of the business community. It challenged both and pledged the administration to a continuing fight on "the activities of malefactors of great wealth who defraud and exploit the people." President Roosevelt and Vice President Garner were renominated by acclamation. Victory at the polls was achieved as easily. Labor flocked to the defense of the Democratic ticket, while the Republican cause was not aided by the support of those unreconstructed conservatives who refused to see that trade unionism and social security had come to stay. Landon, who was personally a liberal and sympathetic to many of the New Deal achievements, was put in an equivocal position and he never recovered. The President's reelection was one of the most impressive demonstrations of the popular will in American politics. He received a popular vote of 27,751,000 to Mr. Landon's 16,680,-

ooo, and he carried every state but Maine and Vermont.

*The Supreme Court Fight.* Not only was Roosevelt's reelection a vote of confidence in the New Deal; it also put the stamp of approval on the President's fight against the Supreme Court. Or so he assumed. In any event, in February, 1937, there were sent to Congress a presidential message and a bill which called, in effect, for the packing of the bench. Justices might retire at the age of seventy; if they did not do so, the President had the right to appoint up to six additional members to supplement the nonretiring members. The storm that arose took the President by surprise. Party ranks were broken, old friends deserted ancient loyalties, and a bitter controversy raged in Congress and in the press for months. The President lost the support of his personal friend Governor Lehman of New York, and of Senator Wheeler of Montana, who had been one of the New Deal's most loyal defenders.

The backers of the President insisted that Congress was closer to the will of the people than the Court was. As Charles A. Beard put it: "Congress has the same right as the Supreme Court to be courageous and independent. If Congress . . . agrees with four of the Supreme Court Justices that five of the Justices have misread, misinterpreted, and in substance violated the Constitution, then Congress has the civic and moral obligation to bring the Court back within the Constitution." The President's opponents, on the other hand, feared the destruction of the country's Constitutional liberties if the Supreme Court was compelled to become the rubber stamp of the Executive. The President entered the lists in person and made two public addresses in which he declared frankly that there was "no definite assurance that the three-horse team of the American system of government will pull together" and that he wanted "to appoint Justices who will not undertake to override Congress or legislative policy."

The President was unsuccessful because of the hostility of the Senate. His bill was reported out adversely by the Senate Judiciary Committee; a long debate ensued, and when his chief whip, Senator Robinson of Arkansas died suddenly, the administration support collapsed. A substitute proposal was introduced and, because it pleased nobody, the Senate voted to recommit it on July 22. Thus the drama ended. For a short time, curiously enough, victory was with the President; for the withdrawal of three of his most persistent foes on the bench made it possible for him to appoint men who were more favorably disposed toward administration policies. Justice Van Devanter was succeeded by Senator Hugo Black of Alabama in 1937; Justice Sutherland was succeeded by Solicitor General Stanley Reed in 1938; and Justice Butler was succeeded by Attorney General Murphy in 1940. Now the Court began to talk with the tongue of the New Deal, and the President could say—as he did in one of his "fire-side chats" in July, 1938—that while he had lost a battle he had really won the war. But victory—especially in the long run—was with the Court too; for its independence and integrity had been preserved, and it survived as an independent agency to fight again another day if American liberties should be threatened.

*Slowing Down of the New Deal.* From this time on, the New Deal as domestic policy became less and less aggressive. For one thing, the President was meeting with more resistance in Congress, notably among those Southern legislators who were beginning to find their alliance with labor spokesmen an uneasy one. But more important, the President, after his "quarantine" speech at Chicago of October, 1937, was turning his attention almost completely to foreign affairs. He saw, as did Churchill in England, that Nazism was not a European program but a plan for world conquest, and he sought to awaken Americans to their peril. New Dealism was increasingly preoccupied with recovery questions; and

here the chief weapons were the deficit financing of the Treasury and the control over banking policy of the Board of Governors of the Federal Reserve System. When the President, for example, sought to chastise those Congressmen and Senators who had failed to rally to him in the Supreme Court fight, by calling for their defeat in the elections of 1938, he was rebuffed by the elec-

torate. The Republicans were beginning to creep up on the New Deal. In 1938 they elected governors in a number of states that had gone Democratic previously; and they won 80 seats in the House and 8 in the Senate. Cooperating with some 60 conservatives in the ranks of the Democracy, the Republicans were able to hold the more aggressive representatives of the New Deal in leash.

## 8. THE THIRD-TERM ELECTION

Whether Roosevelt entertained thoughts of a third term before World War II broke out is hard to say. But one may note that by 1940, particularly after the collapse of France in May, it was apparent to him that our involvement was a matter of time alone. In fact, were Britain to fall, a victory for the Axis was clearly on the cards. The continuance, unbroken, of a foreign policy which stood for defiance to the Axis and aid to Britain preceded all other considerations. The Axis had to be defeated; and if this meant the shattering of the third-term tradition, that could not be helped. So, apparently, ran the President's thoughts and the thoughts of his consistent followers, notably those in the ranks of labor.

*The Republicans.* The Republican delegates to the presidential nominating convention met at Philadelphia in June, 1940, in one of the most critical periods in American affairs. Division among Americans was quite as profound as it had been in the 1850s. Isolationists made light of the talk of our dangers at the hands of the Axis and were ready to accept the word of the Germans and the Japanese that the New Order was designed only for Europe, and the Co-Prosperity Sphere only for Eastern Asia. Interventionists were fearful, and they pointed not only to Hitler's military successes but also to the great victories gained by the Nazi ideology in our own midst and among the Latin American peoples. The Republicans were called upon

to make a fateful choice. Interestingly enough, the choice was made not by the delegates but by the rank and file, who forced upon the convention the nomination of Wendell L. Willkie of Indiana and New York City. Willkie was named on the sixth ballot, and with him was nominated Senator McNary of Oregon.

Willkie was no standpatter; with much of the achievement of the New Deal he sympathized. He was opposed, however, to the New Deal's inefficiency and irresponsibility, to its hostility to business, and its willingness to build up a towering bureaucracy. On foreign policy he saw eye to eye with the President: Britain had to be aided, the Axis meant to fight us.

*Outcome of the Election of 1940.* Mr. Roosevelt said nothing about his successor to the Democratic convention at Chicago in July. While there was considerable opposition among party leaders to his being named, none came out into the open, and he was renominated on the first ballot. At his request, Secretary of Agriculture Henry A. Wallace was chosen as his running mate. The most important defection from the Democratic ranks was that of James A. Farley, who had nursed the President's political career throughout the long period of New York politics, and who had helped to elect him in 1932 and to reelect him in 1936. The charge of dictatorship had some effect on the voting; so did the issues of the European conflict as far

as European-born peoples in our midst were concerned. The larger farmers of the Middle West returned to the Republican fold, and some of the professional and white-collar supporters of the earlier elections also dropped out of the Democratic ranks. But the Presi-

dent was triumphantly reelected, although by a reduced majority. Roosevelt's popular vote was 27,000,000 against Willkie's 22,000,000; his electoral vote 449 against Willkie's 82. The Republicans carried ten New England and Midwestern states—and that was all.

## 9. THE NEW DEAL AND THE PROBLEM OF BUREAUCRACY

There was no doubt that the New Deal had come to grips with a series of important and pressing problems. From the social point of view, its accomplishment had been significant: it had sought to end insecurity and it had helped the American labor movement to mature. From the economic point of view, its programs had resulted in the raising of quite as many questions as it had sought to answer. It was in the political sector, however, that New Deal planning had stepped out boldly into the unknown; with what consequences to the traditional American way of life it was hard to measure.

*Character of State Interventionism.* For the New Deal had parted completely with the nineteenth century conception of the *laissez-faire*, or passive, state; Americans were fully launched on the experiment of state capitalism. The depression of 1930 and after had persuaded New Deal theoreticians that capitalism's progress in the United States had slowed down, if it had not ceased altogether. Now the state had to assume positive functions. Accordingly, its role as umpire was magnified and extended into other regions—as in the case of the establishment of the National Labor Relations Board and the Securities and Exchange Commission. Its social-service functions were expanded, particularly in the handling of the problems of the unemployed, the unemployables, and other dependents.

Nor was this all. Under the New Deal the state began to initiate projects and undertakings of a distinctly economic character. The

national state, in short, was beginning to take on, in many domains, the essential color of private enterprise. It borrowed money, not alone for the maintenance of the traditional civil and military establishments of government, but also for the purposes of buying and selling commodities, processing goods, creating electric power and light, dealing in real estate, engaging in warehousing, the banking business, and the shipping and railroading businesses. It set up corporations and corporate agencies which possessed charters, directors, assets, thousands of employees, and industrial and mercantile policies. As in big business, there were interlocking directorates and the shifting of funds.

*Problems Raised by Statism.* This was a startling transformation; and it raised for many Americans disquieting problems. There were—even before our entry into World War II—at least fifty such New Deal corporations and corporate agencies which were in or could go into business. Some were created by Congress, some by presidential order, some by departmental decision alone. Often they were run by Cabinet officers who, in the nature of things, were compelled to delegate power to anonymous lesser officials. The pattern was too complex and too obscure for popular control.

To whom, in the final analysis, were these executive agencies to be responsible? To Congress? But Congress did not possess any longer a machinery sensitive enough for their surveillance. Its committee system had been laid out for a simpler day; and to keep track of all

the executive agencies would require a functionary group quite as complex as that already managing the new authorities and offices. By what tests was the worth of these new public bodies to be measured? By those of private business? But the New Deal authorities and offices did not have to enter the money market for fresh funds; they did not have to conserve assets; they were not called upon to present favorable profit-and-loss statements. Wage policies were fixed by statute and not by the competition of the market place.

How—most important of all—were the functionaries to be prevented from extending their authority? For here lay the real danger of a bureaucracy: that it tended to associate

its own well-being with the general welfare. This was one of the vexing problems the New Deal had created. It was not possible to dismiss it lightly or to seek to disguise its perils by referring to the new state as the "social-service state." Even as the war progressed, the question of this new American bureaucracy could not be downed, and it was one of the important reasons for the increasingly critical tone that Congress took toward the President.

During the later years of the Roosevelt administration, however, these critical questions were latent, if not far below the surface. The country's response to unrest abroad was absorbing more and more the attention of all parties.

## 10. INTERNATIONAL RELATIONS UNDER THE NEW DEAL

Up to October, 1937—always excepting the Good Neighbor policy and Secretary of State Hull's reciprocal trading program—the New Deal's foreign policy had a definitely nationalistic orientation. Economic revival in the rest of the world apparently was not to be a direct concern of the United States; if America could reestablish high levels of employment and increase its national income, then our prosperity would flow out beyond our shores and in time cover the whole earth. That we had become fully integrated into world affairs politically and economically—and that we could not pull ourselves up by our own bootstraps—were ideas only dimly felt in Washington.

An American delegation was sent to London in June, 1933, to attend the World Economic Conference, which was to concern itself with the stabilization of currencies, the freeing of the flow of world trade, and international prices. And then suddenly by Roosevelt's order—and to the dismay of Europeans generally—the Americans refused to tie their currency to that of the British or promise to

defend the gold standard. The conference ended in failure.

Congress showed no greater wisdom. In April, 1934, it passed the Johnson Act. Under this, those nations which had received loans from the American government during World War I and which after 1930 had defaulted on interest payments were denied the right to float public securities in the American money market. Thus American capital resources were not to be made available to the European powers for the purposes of assisting them in coming to grips with their own economic difficulties; or indeed in helping them obtain funds here for rearmament purposes after 1936, when the menace of Hitler had become very real.

*The Good Neighbor Policy.* In our relations with the countries of the Western Hemisphere we were more far-sighted. As has been pointed out, a good beginning had been made by Secretaries of State Kellogg and Stimson during 1927-33. Roosevelt, with the assistance of Secretary of State Cordell Hull, happily continued along these paths. In his

First Inaugural, Roosevelt had defined the Good Neighbor as one who "resolutely respects himself, and because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors."

When revolution broke out in Cuba, Roosevelt not only refused to intervene, but he also offered and sent American economic assistance to the distressed republic. In 1934, the new government of Cuba was recognized; and a few months later, our protectorate was terminated by the repeal of the Platt Amendment. The same summer saw the recall of American marines from Haiti; and in 1935, the United States relinquished its financial control over the Haitian government. Also in 1935, cooperating with Latin American governments, the United States succeeded in terminating the war between Chile and Paraguay; and in 1936 our treaty rights in Panama were given up and that little republic was now truly independent for the first time.

In January, 1936, Roosevelt appeared in person at the Pan American conference being held at Buenos Aires—he was the first President of the United States ever to have visited South America while in office—and gave further pledges of his devotion to the idea of the Good Neighbor. A consultative pact was signed under which the signatories pledged to consult together in the event of war or intervention in the Western Hemisphere. The United States was moving toward converting the Good Neighbor policy into a multilateral understanding.

This, in fact, was achieved in 1940 at the Havana Conference when the so-called Act of Havana was drawn up. The Act of Havana was prefaced by the statement that "the status of regions in this continent belonging to European Powers is a subject of deep concern to all the governments of the American Republics." And then the Act went on to pledge all the signatories to regard as an aggressive measure against all of them "any attempt on the part

of a non-American State against the integrity or inviolability of the territory, the sovereignty, or the political independence of an American State." It is true that the Monroe Doctrine continued to be stated as an American unilateral declaration; but the Act of Havana reaffirmed it in multilateral terms. To this degree, therefore, the Latin American nations were prepared to accept the pledge of the United States that the Monroe Doctrine was directed against non-American Powers entirely.

*Reciprocal Trade Agreements.* The Reciprocal Trade Agreements Act of 1934 gave the President power to conclude with other countries conventions under which tariff rates could be reduced as much as 50 percent—all this without the need for calling upon Congress to approve. There was only one safeguard included in the act: no item was to be added to or taken from the free list. Under the law, the State Department was to draw up the agreements, being assisted in these activities by a series of interdepartmental committees headed by experts. Public hearings were to be held, in order to afford proper protection for the interests of American business groups. The most-favored nation idea was also provided for, so that concessions granted to one country would apply to all countries that did not discriminate against us. Thus the benefits of revision downward would spread out in widening circles, including not only those nations which signed agreements with us but also those nations with whom signatories of the American acts were writing new agreements.

By 1937, when the act was renewed for another three years, agreements had already been written with fourteen countries. These covered more than a third of our total foreign trade, and they had the effect of increasing foreign trade with the signatory nations more than 40 percent. America's tariff wall was still high; but, at least, we were showing good faith in our desire to break down barriers to free exchanges the world over. Congress con-

tinued to renew the Trade Agreements Act in the 1930s and 1940s.

*The Neutrality Acts.* Despite these manifestations of an interest in the world outside our shores, the prevailing American temper was isolationist. Nothing demonstrated this better than the Neutrality Acts of 1935, 1936, and 1937. As a result of the investigations of the Senate Munitions Committee, headed by Gerald P. Nye of North Dakota, Congress and a good part of the American people had become convinced that the munition makers had in very considerable measure been responsible for the entrance of the United States into World War I. To prevent our involvement in new international conflicts, therefore, Congress passed the first of its Neutrality Laws in August, 1935. This provided that upon the outbreak of war, an embargo was to be imposed by the President upon the export of implements of war; also, at his discretion, he might prohibit Americans from traveling on the ships of belligerent nations except at their own risk. The act was to be in force until February, 1936.

The second Neutrality Act—the joint resolution of February, 1936, which was to apply until May, 1937—further cut down the area of presidential discretionary action. In 1935, Italy had invaded Ethiopia, and Americans saw the League of Nations struggling ineffectively against this act of aggression. They were sure, therefore, they were on the right course; we must not be drawn into the troubles of Europe at any price. The second act, therefore, preserved the mandatory embargo on implements of war and permitted the President to extend it to other exports. Belligerent powers were to be denied the right to raise funds in American money markets.

Between the second and the third neutrality acts, civil war broke out in Spain; Italy, Germany, and Russia intervened; and the Berlin-Rome Axis was established. There was no doubt that an international conflict was impending. In such a climate, with the isola-

tionists still in the saddle, the third Neutrality Act—the joint resolution of May 1, 1937—was drawn up. Unlike its predecessors, this was to be a permanent commitment. It continued the mandatory embargo on arms, munitions, and implements of war and the prohibition on credits to belligerents. It denied Americans the right to travel on ships of belligerents under any circumstances. It refused to allow American merchant ships to arm. And, for two years, all goods destined for nations at war were to come under the "cash and carry" provision: they were to be carried away in non-American ships and they were to be paid for before they left the country.

*The Quarantine Address.* Up to this time, Roosevelt's own attitude toward the disorders beginning to appear throughout the world remained unclear. So, in January, 1936, he was prepared to accept all the terms of the first Neutrality Act. Again, to the chagrin of many American liberals, it was the President himself who asked Congress in January, 1937, to impose an arms embargo on Spain—and this despite the fact that the duly constituted Loyalist government was being fought by insurgents openly supported by Italy and Germany. Further, in order to apply the arms embargo to the Italo-Ethiopian conflict, the President had declared a state of war in existence before diplomatic relations between the two countries had even been suspended. And on the other hand, he had refused to recognize a state of war in China, even after Japanese aggression had become unmasked, as early as 1931.

By 1936, it was apparent that Japan was ready to cut herself free from all international commitments. In January of that year, the Japanese delegation quit the naval conference in London because the other Powers would not grant Japan parity; this meant the denunciation of the London Naval Treaty of 1930 and the resumption of capital ship construction. And in November, Japan signed the Anti-Comintern Pact: it had taken its stand

beside the other two aggressors, Germany and Italy.

In July, 1937, the Japanese launched their full-scale offensive against the Chinese, when the Marco Polo Bridge incident opened hostilities. Before the year was over, without the formal declaration of war, Japan had extended its military operations over a good part of northern and central China. The Japanese poured armies into that unhappy country and engaged in atrocities against civilian populations.

One such was the general aerial bombing of the populous city of Nanking. It was after this attack that President Roosevelt came to understand that America no longer could remain an onlooker as the flames of war crept over the world. In Chicago on October 5, he delivered his famous Quarantine Address in which he called the attention of the American people to the fact that Japanese, German, and Italian aggression was imperilling our safety. And he issued this portentous warning to his fellow countrymen:

Let no one imagine that America will escape, that America may expect mercy, that this Western Hemisphere will not be attacked and that it will continue tranquilly and peacefully to carry on the ethics and the arts of civilization. . . . If we are to have a world in which we can breathe freely and live in amity without fear, the peace-loving nations must make a concerted effort to uphold laws and principles on which peace can rest secure. . . .

President Roosevelt declared boldly, therefore, that he would quarantine aggressors. From that day to the attack on Pearl Harbor, the administration left no stone unturned to prepare the United States against future eventualities.

*Preparedness.* In January, 1938, the President called Congress' attention to the fact that other nations were rearming; and he asked for new naval construction. Congress quickly complied and passed the administration measure much as the naval experts had drawn it up. The Naval Act of 1938 author-

ized the expenditure of more than a billion dollars on new capital ships, airplane carriers, and cruisers; the United States was beginning to move toward the development of that two-ocean navy which alone could defend the two seas on which it faced.

Meanwhile, relations with Japan were steadily deteriorating. In December, 1937, Japanese aircraft bombed and destroyed the American gunboat *Panay* on the Yangtze River. It is true that the Japanese made immediate apologies and offered indemnification; but the State Department refused to assume that this was to be the last of the unfriendly acts of the Japanese toward the United States.

Checking Japanese aggression was not an easy matter, however. And America's position was becoming increasingly difficult as the European Powers themselves found no formulas to preserve peace. In September, 1938, England and France abandoned Czechoslovakia to its fate when they surrendered the Sudetenland to Hitler at Munich. In March, 1939, Hitler marched into Czechoslovakia with none to gainsay him; in the same month he took Memel. In April, Mussolini seized Albania. France and England knew that Poland was to be the next victim, and they declared unequivocally that they would fight if Hitler moved eastward. But Hitler was wiser than they assumed; he was not ready—yet—to wage a two-front war. He proceeded to assure his safety on the east by the German-Soviet Pact of August 22, 1939. On September 1, the German armies were in Poland and World War II had commenced.

Poland quickly fell while the French army sat behind the safety—so it believed—of the Maginot Line. And then, after they had exploited fully the psychological effects of the so-called "phony war" in the west, the German armies swung across the Rhine into the Low Countries and France. France, unprepared and badly led, fell in June, 1940. Only England stood out against the successful German Wehrmacht. And in September, 1940,



Japan, Germany, and Italy signed the Tripartite Pact, which bound them together in a military alliance.

Only now did America begin to put its house in order. The navy was granted further appropriations; the President was given the right to call out the National Guard; in September, the Selective Service Act was passed. To protect us from surprise attacks—and to help England—in the same month we released fifty over-age destroyers to the British navy in exchange for long-term leases in British possessions in the Western Hemisphere where we could build air and naval bases. Our vigilance toward the Japanese also was commendable. In July, 1940—to check the flow of vital war materials eastward—the Export Control Act gave the President power to curtail or prohibit the movement of such goods. Licenses were refused for the export of aviation gasoline and most types of machine tools. In October, the export of iron and steel scrap to Japan was embargoed.

Then, we committed ourselves. For, in March, 1941, Congress passed the Lend-Lease Act—and we were launched, as Roosevelt said, upon a “policy of unqualified, immediate, all-out aid for Britain, Greece, China, and for all the governments in exile whose homelands are temporarily occupied by the aggressors.” An undeclared naval war broke out in the Atlantic; but Japan and not Hitler struck first.

*Pearl Harbor.* On June 22, 1941, without warning, Germany attacked Russia; and at the same time Japanese pretensions toward the whole of southeastern Asia were revealed. It was evident to America that Japan was preparing for a large-scale offensive that threatened not only French Indo-China (which indeed it had already occupied), but also Malaya, Burma, and the Netherlands In-

dies. We warned the Japanese against such moves; and for a time they temporized. They sent a new ambassador, Admiral Nomura, to Washington and he and Secretary Hull carried on discussions during the greater part of 1941. In November, Nomura was joined by a special emissary, Saburo Kurusu; there were further conversations, with Roosevelt and Hull both participating in them—but no agreements were reached. Meanwhile General Tojo, an open warmonger, had become the Japanese prime minister; and it was plain to American Ambassador Grew at Tokyo that Japan meant to fight. Washington was warned accordingly, and members of the administration, in public addresses, began to prepare the American people for hostilities.

The attack came from an unexpected quarter. Early Sunday morning, December 7, the Japanese struck at Pearl Harbor from the air. The next day, President Roosevelt appeared before Congress and asked for the declaration of a state of war. Congress complied at once, there being but one dissenting vote. Three days later, Germany and Italy declared war on the United States.

The United States was in World War II. It was committed to the destruction of the Axis Powers and to the termination of the threat of aggression everywhere. After more than twenty years, America had returned to take its place in that “one world” which it had mistakenly assumed it could disregard. American prosperity and security were linked with welfare and peace everywhere on the face of the earth. To this point the Third American Revolution had brought the American people, some three and one-half centuries after Elizabethan England had begun to dream of establishing settlements on the North American mainland.

# THE AMERICAN MIND

## FRANKLIN D. ROOSEVELT

IN THE MIDST of depression the presidential campaign of 1932 was waged, with Herbert Hoover the Republican candidate and Franklin D. Roosevelt the Democratic candidate. Roosevelt (1882-1945) had returned from defeat and illness to political life, won the New York Governor's chair in 1929, and had made himself the leading contender for the Democratic nomination. His platform pledged reform, relief, and economy. From his initial step, a flight to Chicago to accept the nomination, through the long course of his tour, the Democratic candidate's campaign broke precedents. Nowhere does Roosevelt's view of the American purpose appear more clearly than in his Commonwealth Club Address of September 23, 1932. To these Californians, Roosevelt spoke of principles, returning in a sense to the old conception of "political economy" as opposed to the more limited fields of "economics" on the one side and "politics" on the other. What is the purpose of government, Roosevelt asked, and to what end does it exist? He uses history to elucidate that question: the government of the United States was born during the long fight of the people against the excesses of centralized government controlled by a privileged class. That fight was reflected in the struggle between Jefferson and Hamilton. With Jefferson's triumph began the day of individualism, a political individualism soundly based on the opportunities of the frontier and the potentialities of the machine. In that setting, no checks were placed on means, so long as the great end of economic development proceeded unhampered.

As the nineteenth century ended, this concept of political economy showed itself at variance with fact. Théodore Roosevelt and

Woodrow Wilson both tried to meet the problem, one by attacking "bad" trusts, at least; the other by attempting to stop the centralization of financial power. War put an end to the Wilson program. When the war was over, the Republican "return to normalcy" furthered all the tendencies which progressives of the pre-War decades had fought to control.

Now the United States sees its frontier gone, its foreign markets shrinking, and its opportunities to establish new enterprises curtailed. The United States must reconsider its values, Roosevelt argued: it must turn its attention from mere competitive promotion of development to the problems of unbalanced consumption and of foreign trade. Secular trends toward consolidation cannot be reversed. But responsibility can be enforced upon the possessors of economic power. Achieving such responsibility is the business of industry and finance; government should intervene only to protect the body of socially-minded businessmen against the "Ishmael or Insull whose hand is against every man," or in order to safeguard the interest of the public. In this fashion, Roosevelt clearly outlined the philosophy of the New Deal.

The November elections gave Franklin D. Roosevelt a great electoral majority. In the interregnum between the counting of the votes and March 4, Inauguration Day, the economic downturn that had extinguished the faint revival of the late summer became an avalanche. Unemployment swelled; financial institutions collapsed in spite of RFC loans; armed farmers resisted foreclosures in some areas; depression became deeper as the country's foundations seemed threatened.

In this atmosphere, Roosevelt delivered his

first Inaugural Address, a speech in which he addressed the nation by radio, as well as the people gathered to see the actual administration of the oath of office. He spoke confidently, outlining plans and giving assurances as he foreshadowed the legislative program of the New Deal:

I am certain that my fellow Americans expect that on my induction into the Presidency I will address them with a candor and a decision which the present situation of our Nation impels. This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country today. This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give that support to leadership in these critical days.

In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunk to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no markets for their produce; the savings of many years in thousands of families are gone.

More important, a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

Yet our distress comes from no failure of substance. . . . Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure, and have abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men. . . .

The money changers have fled from their high

seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit. . . .

Recognition of the falsity of material wealth as the standard of success goes hand in hand with the abandonment of the false belief that public office and high political position are to be valued only by the standards of pride of place and personal profit; and there must be an end to a conduct in banking and in business which too often has given to a sacred trust the likeness of callous and selfish wrongdoing. . . .

Restoration calls, however, not for changes in ethics alone. This Nation asks for action, and action now.

Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war. . . .

. . . The task can be helped by definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities. It can be helped by insistence that the Federal, State and local governments act forthwith on the demand that their cost be drastically reduced. It can be helped by the unifying of relief activities which today are often scattered, uneconomical, and unequal. . . . We must act and act quickly.

Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order: there must be a strict supervision of all banking and credits and investments, so that there will be an end to speculation with other people's money; and there must be provision for an adequate but sound currency. . . .

Through this program of action we address ourselves to putting our own national house in order and making income balance outgo. Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment. . . .

In the field of world policy I would dedicate this Nation to the policy of the good neighbor—the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and re-

spects the sanctity of his agreements in and with a world of neighbors.

If I read the temper of our people correctly, we now realize as we have never realized before our interdependence on each other; that we cannot merely take but we must give as well; that if we are to go forward, we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership becomes effective. We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife. . . .

Action in this image and to this end is feasible under the form of government which we have inherited from our ancestors. Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. . . .

It is to be hoped that the normal balance of Executive and legislative authority may be wholly adequate to meet the unprecedented task before us. . . .

I am prepared under my constitutional duty to recommend the measures that a stricken Nation

in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe. . . .

We face the arduous days that lie before us in the warm courage of national unity; with the clear consciousness of seeking old and precious moral values; with the clean satisfaction that comes from the stern performance of duty by old and young alike. We aim at the assurance of a rounded and permanent national life.

We do not distrust the future of essential democracy. The people of the United States have not failed. . . .

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## *Commonwealth Club Address*

BY FRANKLIN D. ROOSEVELT

. . . I WANT TO SPEAK not of politics but of Government. I want to speak not of parties, but of universal principles. They are not political, except in that larger sense in which a great American once expressed a definition of politics, that nothing in all of human life is foreign to the science of politics. . . .

The issue of Government has always been whether individual men and women will have to serve some system of Government or economics, or whether a system of Government and economics exists to serve individual men and women. This question has persistently dominated the discussion of Government for many generations. On questions relating to these things men have differed, and for time immemorial it is probable that honest men will continue to differ. . . .

When we look about us, we are likely to forget how hard people have worked to win the privilege

of Government. The growth of the national Governments of Europe was a struggle for the development of a centralized force in the Nation, strong enough to impose peace upon ruling barons. In many instances the victory of the central Government, the creation of a strong central Government, was a haven of refuge to the individual. The people preferred the master far away to the exploitation and cruelty of the smaller master near at hand.

But the creators of national Government were perforce ruthless men. They were often cruel in their methods, but they did strive steadily toward something that society needed and very much wanted, a strong central State able to keep the peace, to stamp out civil war, to put the unruly nobleman in his place, and to permit the bulk of individuals to live safely. The man of ruthless force had his place in developing a pioneer coun-

try, just as he did in fixing the power of the central Government in the development of Nations. Society paid him well for his services and its development. When the development among the Nations of Europe, however, had been completed, ambition and ruthlessness, having served their term, tended to overstep their mark.

There came a growing feeling that Government was conducted for the benefit of a few who thrived unduly at the expense of all. The people sought a balancing—a limiting force. There came gradually, through town councils, trade guilds, national parliaments, by constitution and by popular participation and control, limitations on arbitrary power.

Another factor that tended to limit the power of those who ruled, was the rise of the ethical conception that a ruler bore a responsibility for the welfare of his subjects.

The American colonies were born in this struggle. The American Revolution was a turning point in it. After the Revolution the struggle continued and shaped itself in the public life of the country. There were those who because they had seen the confusion which attended the years of war for American independence surrendered to the belief that popular Government was essentially dangerous and essentially unworkable. They were honest people, my friends, and we cannot deny that their experience had warranted some measure of fear. The most brilliant, honest and able exponent of this point of view was Hamilton. He was too impatient of slow-moving methods. Fundamentally he believed that the safety of the republic lay in the autocratic strength of its Government, that the destiny of individuals was to serve that Government, and that fundamentally a great and strong group of central institutions, guided by a small group of able and public spirited citizens, could best direct all Government.

But Mr. Jefferson, in the summer of 1776, after drafting the Declaration of Independence turned his mind to the same problem and took a different view. He did not deceive himself with outward forms. Government to him was a means to an end, not an end in itself; it might be either a refuge and a help or a threat and a danger, depending on the circumstances. We find him carefully analyzing the society for which he was to organize a Government. "We have no paupers. The great mass of our population is of laborers, our rich who cannot live without labor, either manual or professional, being few and of moderate wealth. Most of the laboring class possess property, cultivate their own lands, have families and from the demand for their labor, are enabled to

exact from the rich and the competent such prices as enable them to feed abundantly, clothe above mere decency, to labor moderately and raise their families."

These people, he considered, had two sets of rights, those of "personal competency" and those involved in acquiring and possessing property. By "personal competency" he meant the right of free thinking, freedom of forming and expressing opinions, and freedom of personal living, each man according to his own lights. To insure the first set of rights, a Government must so order its functions as not to interfere with the individual. But even Jefferson realized that the exercise of the property rights might so interfere with the rights of the individual that the Government, without whose assistance the property rights could not exist, must intervene, not to destroy individualism, but to protect it.

You are familiar with the great political duel which followed; and how Hamilton, and his friends, building toward a dominant centralized power were at length defeated in the great election of 1800, by Mr. Jefferson's party. Out of that duel came the two parties, Republican and Democratic, as we know them today.

So began, in American political life, the new day, the day of the individual against the system, the day in which individualism was made the great watchword of American life. The happiest of economic conditions made that day long and splendid. On the Western frontier, land was substantially free. No one, who did not shirk the task of earning a living, was entirely without opportunity to do so. Depressions could, and did, come and go; but they could not alter the fundamental fact that most of the people lived partly by selling their labor and partly by extracting their livelihood from the soil, so that starvation and dislocation were practically impossible. At the very worst there was always the possibility of climbing into a covered wagon and moving west where the untilled prairies afforded a haven for men to whom the East did not provide a place. So great were our natural resources that we could offer this relief not only to our own people, but to the distressed of all the world; we could invite immigration from Europe, and welcome it with open arms. Traditionally, when a depression came a new section of land was opened in the West; and even our temporary misfortune served our manifest destiny.

It was in the middle of the nineteenth century that a new force was released and a new dream created. The force was what is called the industrial revolution, the advance of steam and ma-

chinery and the rise of the forerunners of the modern industrial plant. The dream was the dream of an economic machine, able to raise the standard of living for everyone; to bring luxury within the reach of the humblest; to annihilate distance by steam power and later by electricity, and to release everyone from the drudgery of the heaviest manual toil. It was to be expected that this would necessarily affect Government. Heretofore, Government had merely been called upon to produce conditions within which people could live happily, labor peacefully, and rest secure. Now it was called upon to aid in the consummation of this new dream. There was, however, a shadow over the dream. To be made real, it required use of the talents of men of tremendous will and tremendous ambition, since by no other force could the problems of financing and engineering and new developments be brought to a consummation.

So manifest were the advantages of the machine age, however, that the United States fearlessly, cheerfully, and, I think, rightly, accepted the bitter with the sweet. It was thought that no price was too high to pay for the advantages which we could draw from a finished industrial system. The history of the last half century is accordingly in large measure a history of a group of financial Titans, whose methods were not scrutinized with too much care, and who were honored in proportion as they produced the results, irrespective of the means they used. The financiers who pushed the railroads to the Pacific were always ruthless, often wasteful, and frequently corrupt; but they did build railroads, and we have them today. It has been estimated that the American investor paid for the American railway system more than three times over in the process; but despite this fact the net advantage was to the United States. As long as we had free land; as long as population was growing by leaps and bounds; as long as our industrial plants were insufficient to supply our own needs, society chose to give the ambitious man free play and unlimited reward provided only that he produced the economic plant so much desired.

During this period of expansion, there was equal opportunity for all and the business of Government was not to interfere but to assist in the development of industry. This was done at the request of business men themselves. The tariff was originally imposed for the purpose of "fostering our infant industry," a phrase I think the older among you will remember as a political issue not so long ago. The railroads were subsidized, sometimes by grants of money, oftener by grants of land; some of the most valuable oil lands in the

United States were granted to assist the financing of the railroad which pushed through the Southwest. A nascent merchant marine was assisted by grants of money, or by mail subsidies, so that our steam shipping might ply the seven seas. Some of my friends tell me that they do not want the Government in business. With this I agree; but I wonder whether they realize the implications of the past. For while it has been American doctrine that the Government must not go into business in competition with private enterprises, still it has been traditional, particularly in Republican administrations, for business urgently to ask the Government to put at private disposal all kinds of Government assistance. The same man who tells you that he does not want to see the Government interfere in business—and he means it, and has plenty of good reasons for saying so—is the first to go to Washington and ask the Government for a prohibitory tariff on his product. When things get just bad enough, as they did two years ago, he will go with equal speed to the United States Government and ask for a loan; and the Reconstruction Finance Corporation is the outcome of it. Each group has sought protection from the Government for its own special interests, without realizing that the function of Government must be to favor no small group at the expense of its duty to protect the rights of personal freedom and of private property of all its citizens.

In retrospect we can now see that the turn of the tide came with the turn of the century. We were reaching our last frontier; there was no more free land and our industrial combinations had become great uncontrolled and irresponsible units of power within the State. Clear-sighted men saw with fear the danger that opportunity would no longer be equal; that the growing corporation, like the feudal baron of old, might threaten the economic freedom of individuals to earn a living. In that hour, our anti-trust laws were born. The cry was raised against the great corporations. Theodore Roosevelt, the first great Republican Progressive, fought a Presidential campaign on the issue of "trust busting" and talked freely about malefactors of great wealth. If the Government had a policy it was rather to turn the clock back, to destroy the large combinations and to return to the time when every man owned his individual small business.

This was impossible; Theodore Roosevelt, abandoning the idea of "trust busting," was forced to work out a difference between "good" trusts and "bad" trusts. The Supreme Court set forth the famous "rule of reason" by which it seems to have meant that a concentration of industrial power

was permissible if the method by which it got its power, and the use it made of that power, were reasonable.

Woodrow Wilson, elected in 1912, saw the situation more clearly. Where Jefferson had feared the encroachment of political power on the lives of individuals, Wilson knew that the new power was financial. He saw, in the highly centralized economic system, the despot of the twentieth century, on whom great masses of individuals relied for their safety and their livelihood, and whose irresponsibility and greed (if they were not controlled) would reduce them to starvation and penury. The concentration of financial power had not proceeded so far in 1912 as it has today; but it had grown far enough for Mr. Wilson to realize fully its implications. . . . The problem he saw so clearly is left with us as a legacy; and no one of us on either side of the political controversy can deny that it is a matter of grave concern to the Government.

A glance at the situation today only too clearly indicates that equality of opportunity as we have known it no longer exists. Our industrial plant is built; the problem just now is whether under existing conditions it is not overbuilt. Our last frontier has long since been reached, and there is practically no more free land. More than half of our people do not live on the farms or on lands and cannot derive a living by cultivating their own property. There is no safety valve in the form of a Western prairie to which those thrown out of work by the Eastern economic machines can go for a new start. We are not able to invite the immigration from Europe to share our endless plenty. We are now providing a drab living for our own people.

Our system of constantly rising tariffs has at last reacted against us to the point of closing our Canadian frontier on the north, our European markets on the east, many of our Latin-American markets to the south, and a goodly proportion of our Pacific markets on the west, through the retaliatory tariffs of those countries. It has forced many of our great industrial institutions which exported their surplus production to such countries, to establish plants in such countries, within the tariff walls. This has resulted in the reduction of the operation of their American plants, and opportunity for employment.

Just as freedom to farm has ceased, so also the opportunity in business has narrowed. It still is true that men can start small enterprises, trusting to native shrewdness and ability to keep abreast of competitors; but area after area has been preempted altogether by the great corporations, and

even in the fields which still have no great concerns, the small man starts under a handicap. The unfeeling statistics of the past three decades show that the independent business man is running a losing race. Perhaps he is forced to the wall; perhaps he cannot command credit; perhaps he is "squeezed out," in Mr. Wilson's words, by highly organized corporate competitors, as your corner grocery man can tell you. Recently a careful study was made of the concentration of business in the United States. It showed that our economic life was dominated by some six hundred odd corporations who controlled two-thirds of American industry. Ten million small business men divided the other third. More striking still, it appeared that if the process of concentration goes on at the same rate, at the end of another century we shall have all American industry controlled by a dozen corporations, and run by perhaps a hundred men. Put plainly, we are steering a steady course toward economic oligarchy, if we are not there already.

Clearly, all this calls for a re-appraisal of values. A mere builder of more industrial plants, a creator of more railroad systems, an organizer of more corporations, is as likely to be a danger as a help. The day of the great promoter or the financial Titan, to whom we granted anything if only he would build, or develop, is over. Our task now is not discovery or exploitation of natural resources, or necessarily producing more goods. It is the soberer, less dramatic business of administering resources and plants already in hand, of seeking to reestablish foreign markets for our surplus production, of meeting the problem of underconsumption, of adjusting production to consumption, of distributing wealth and products more equitably, of adapting existing economic organizations to the service of the people. The day of enlightened administration has come.

Just as in older times the central Government was first a haven of refuge, and then a threat, so now in a closer economic system the central and ambitious financial unit is no longer a servant of national desire, but a danger. I would draw the parallel one step farther. We did not think because national Government had become a threat in the 18th century that therefore we should abandon the principle of national Government. Nor today should we abandon the principle of strong economic units called corporations, merely because their power is susceptible of easy abuse. In other times we dealt with the problem of an unduly ambitious central Government by modifying it gradually into a constitutional democratic Government. So today we are modifying and controlling our economic units.



As I see it, the task of Government in its relation to business is to assist the development of an economic declaration of rights, an economic constitutional order. This is the common task of statesman and business man. It is the minimum requirement of a more permanently safe order of things.

Happily, the times indicate that to create such an order not only is the proper policy of Government, but it is the only line of safety for our economic structures as well. We know, now, that these economic units cannot exist unless prosperity is uniform, that is, unless purchasing power is well distributed throughout every group in the Nation. That is why even the most selfish of corporations for its own interest would be glad to see wages restored and unemployment ended and to bring the Western farmer back to his accustomed level of prosperity and to assure a permanent safety to both groups. That is why some enlightened industries themselves endeavor to limit the freedom of action of each man and business group within the industry in the common interest of all; why business men everywhere are asking a form of organization which will bring the scheme of things into balance, even though it may in some measure qualify the freedom of action of individual units within the business. . . .

I feel that we are coming to a view through the drift of our legislation and our public thinking in the past quarter century that private economic power is, to enlarge an old phrase, a public trust as well. I hold that continued enjoyment of that power by any individual or group must depend upon the fulfillment of that trust. The men who have reached the summit of American business life know this best; happily, many of these urge the binding quality of this greater social contract.

The terms of that contract are as old as the Republic, and as new as the new economic order.

Every man has a right to life; and this means that he has also a right to make a comfortable living. He may by sloth or crime decline to exercise that right; but it may not be denied him. We have no actual famine or dearth; our industrial and agricultural mechanism can produce enough and to spare. Our Government formal and informal, political and economic, owes to everyone an avenue to possess himself of a portion of that plenty sufficient for his needs, through his own work.

Every man has a right to his own property; which means a right to be assured, to the fullest

extent attainable, in the safety of his savings. By no other means can men carry the burdens of those parts of life which, in the nature of things, afford no chance of labor; childhood, sickness, old age. In all thought of property, this right is paramount; all other property rights must yield to it. If, in accord with this principle, we must restrict the operations of the speculator, the manipulator, even the financier, I believe we must accept the restriction as needful, not to hamper individualism but to protect it.

These two requirements must be satisfied, in the main, by the individuals who claim and hold control of the great industrial and financial combinations which dominate so large a part of our industrial life. They have undertaken to be, not business men, but princes of property. I am not prepared to say that the system which produces them is wrong. I am very clear that they must fearlessly and competently assume the responsibility which goes with the power. . . .

The final term of the high contract was for liberty and the pursuit of happiness. We have learned a great deal of both in the past century. We know that individual liberty and individual happiness mean nothing unless both are ordered in the sense that one man's meat is not another man's poison. We know that the old "rights of personal competency," the right to read, to think, to speak, to choose and live a mode of life, must be respected at all hazards. We know that liberty to do anything which deprives others of those elemental rights is outside the protection of any compact; and that Government in this regard is the maintenance of a balance, within which every individual may have a place if he will take it; in which every individual may find safety if he wishes it; in which every individual may attain such power as his ability permits, consistent with his assuming the accompanying responsibility. . . .

Faith in America, faith in our tradition of personal responsibility, faith in our institutions, faith in ourselves demand that we recognize the new terms of the old social contract. We shall fulfill them, as we fulfilled the obligation of the apparent Utopia which Jefferson imagined for us in 1776, and which Jefferson, Roosevelt and Wilson sought to bring to realization. We must do so, lest a rising tide of misery, engendered by our common failure, engulf us all. But failure is not an American habit; and in the strength of great hope we must all shoulder our common load.



## ALVIN H. HANSEN

LATE IN THE NINETEEN THIRTIES, an economic theory made its appearance in America that captured the imaginations of many academicians and won strong support among New Deal functionaries. Indeed, this analysis of the state of the industrial arts and economic progress in America underwrote the whole governmental program of intervention, for it was based upon the assumption that we had become a "mature" nation. The theory was formulated by Alvin H. Hansen (1887- ), professor of economics at Harvard University, and in large measure was derived from J. Maynard Keynes's *General Theory of Employment, Interest and Money*, published in 1936.

The position taken by Hansen was the following. The vitality of American capitalism is spent; ours is a mature economy and the only fate in store for us is secular, or long-term, stagnation. What we may continue to look forward to, like the poor wretches in limbo, is neither hope nor release; our future is a sequence—in the words of one of Hansen's disciples—of "long and severe depressions and brief, anemic recoveries." This analysis is based on the following assumptions. (1) Our frontier is gone. (2) The rate of American population increase is tapering off; soon we shall have only a stationary population for which to provide. (3) New and revolutionary innovation in the field of industry is no longer possible. (4)

Savings pile up; opportunities for private investment diminish; the only large employment for saved funds is in the replacement of used-up capital plant. (5) But great corporations also have sizable accruals—in depreciation reserves and undistributed profits; they are therefore capable of self-financing without the need for resorting to the money market. The result is, idle funds set in the inevitable train of lower production and incomes; and we move from crisis to crisis with secular stagnation as the leading characteristic of our economy. The state must step in—largely through fiscal policy—to maintain income and employment.

The fiscal policies advocated by Hansen and his supporters—and these were at the basis of much of New Deal interventionism—are largely two in nature: the first calls for the checking of "excessive" savings, particularly those of corporations and of individuals in the high and middle income brackets; and the second for a "compensatory" fiscal program—spending by government through the device of deficit financing. The reader is referred to John H. Williams's article *Deficit Spending*, also reprinted in this part, for a critical examination of this theory and policy.

The selection here reprinted is from Hansen's *Fiscal Policy and Business Cycles* (New York, 1941) and is published by permission of W. W. Norton and Company.

*Fiscal Policy and Business Cycles*

BY ALVIN H. HANSEN

## THE THIRTIES VIEWED AGAINST THE BACKGROUND OF EARLIER CYCLES

THE GREAT DEPRESSION, beginning in 1929, which had only partially been overcome, at any rate in the United States, by the end of the thirties, has been characterized as something quite unique in the long history of business cycles. To be sure, in a sense every cycle is unique and has special char-

acteristics of its own. When, however, it is said that the Great Depression was a unique phenomenon, something else is meant than the ordinary degree of variation in duration and depth which we find from cycle to cycle. . . .

The upward and downward movements, which together make business cycles, are now commonly believed to be mainly associated with fluctuations in the volume of real investment. We distinguish

between real investment and financial investment. When one purchases a share in a corporate enterprise or a bond or a mortgage, one is making a financial investment. When one, however, builds a house or a factory or a machine, one is making a real investment. Real investment may, of course, be measured either in value terms or in quantitative terms.

The fluctuations of cyclical movements may be characterized in terms of either money income, real income (the output of material goods and services), or employment. These three categories, to be sure, are not identical. Money income is a function both of real income and of price movements, while real income or output differs from employment by reason of changes in productivity. Cyclically, however, the three move more or less in consonance, though the trend movement is likely to differ considerably under varying circumstances. For certain problems it is extremely important to differentiate sharply between them. But frequently in discussing economic fluctuations or cyclical movements all three may be regarded without serious error as moving together, whether in the upswing or in the downswing. This is particularly true for the short-run movements but less true for the longer-run developments. . . .

*Major and Minor Cycles.* Quite commonly, particularly in America, the term "business cycle" is applied with reference both to what is called the minor cycle and to the major cycle. And with respect to the term "depression," equally the term is applied both to minor recessions and to major depressions. In Europe, when the business or trade cycle is spoken of, reference is usually made to what we call the major cycle.

On the whole it is, we think, preferable to concentrate attention upon the major cycle in business cycle analysis. But it is not possible in doing so to overlook the fact that, particularly in the upswing phase of the major cycle, there regularly occurs, especially in American experience, one or sometimes two interruptions to the upswing movement. In seven of the fifteen major cycles in the period from 1807 to 1937 there were two minor recessions, and in eight of the major upswings there was one minor recession. Since 1883, out of six major cycles two were interrupted by two minor recessions and four by one minor recession.

The major upswing, as we have already noted, can be characterized essentially as an expansion in the rate of real investment. For the purpose currently at hand, it is most useful to classify real investment into the two categories suggested above: (a) inventories of commodity stocks and (b) real investment in fixed capital, including plant

and equipment, housing and public construction. When an upsurge in real investment occurs, it is not unusual for the spurt in inventory accumulation to run ahead of the normal requirements indicated by the rising trend. When this is the case, sooner or later a temporary saturation in inventory accumulation develops, leading to an inventory recession. Not infrequently the minor setbacks experienced in the major upswings may be characterized as inventory recessions. But sometimes other situations may initiate or aggravate these minor recessions. Thus, for example, in the beginning of the major upswing it may be that large investment in improved machinery occurs and that after a time a temporary saturation is reached in this type of investment leading to a recession. The general buoyancy of the upswing, however, soon starts the economy upward again with a further burst of real investment after the temporary setback thus sustained. Sometimes special situations are partly responsible for minor recessions, such as critical international developments, labor disturbances, or even special factors having to do with major industries, such as the Ford shutdown in 1927. Regularly, however, inventory movements play an important role. . . .

The major cycles vary in length from a minimum of six years to a maximum of twelve years, though with rare exceptions they fall within the range of seven to ten years, the average being slightly over eight years. The minor cycles have a range of from a minimum of two years to a maximum of six years, though they usually fall within the range of three to four years, with the average slightly over three and one-third years. . . .

*The So-called "Long Waves."* But there are still other factors of a long-run character which influence the major business cycle and which help to explain the depressed thirties. Many writers, including Kondratieff, Spiethoff, Mitchell, Thorp, Schumpeter, Woytinsky, Ciriacy Wantrup, and others, have noted the important fact that the past experience of the Western world indicates prolonged periods of relatively good times, extending far beyond the boundaries of the major business cycle and even of the building cycle; and similarly prolonged periods of more or less chronic depression, within which, however, the swings of the business cycle occur. . . .

Within these long periods of good times, on the one side, and bad times, on the other, there occur, modified however as indicated above, the more or less regular swings of the major business cycle, the temporary recessions of the minor cycles, and also the more or less regular swings of the eighteen-year building cycle. But since the long periods of

buoyant prosperity or chronic depression extend beyond any of these phenomena, there is reason to suppose that there are other factors which have not been fully taken account of in the discussion either of the major and minor business cycles or of the building cycles. . . .

The dates usually assigned to these periods of preponderantly good times and bad times—or “long waves,” if this term is preferred—are approximately as follows:

<i>Good Times</i>	<i>Bad Times</i>
1787-1815	1815-1843
1843-1873	1873-1897
1897-1920	1920- ?

It is interesting to note that in each of the long periods of good times there developed four major recoveries and three major depressions, while in each downswing there occurred two major recoveries and three major depressions. The turning point both at the top and at the bottom of the “long waves” coincides with the turning point of a major business boom or depression. . . .

Just as the major business cycle has not always been completely synchronous in the various industrial countries, so also it is not always possible to fit all countries neatly into the intervals designated as long periods of buoyant expansion or prolonged bad times. For the most part, however, the experience of different countries conforms with the periods outlined above. With respect to the current phase, the thesis is perhaps defensible that for the western European countries the economic development from 1920 on justifies characterizing it as the beginning of a prolonged period of hard times. With respect to the United States, however, in view of the high prosperity of the twenties, it is difficult to justify placing the United States in such a category. There is, however, the undoubted fact, of which cognizance must be taken, that the decade of the twenties was preponderantly a period of hard times for agriculture. From the standpoint of employment in urban industry as a whole, the twenties must clearly be characterized as a decade of preponderantly buoyant prosperity. It is possible that the most reasonable classification is to make 1920 the turning point for the European countries and 1929 the turning point for the United States. . . .

Three major explanations have been offered for these long periods of good and bad times. One runs in terms of technological developments, innovations, exploitation of new resources, and the opening of new territory. This explanation has been advanced notably by Spiethoff, Wicksell, and Schumpeter. A second explanation runs in terms

of war. This explanation has been advanced prominently by Ciriacy Wantrup and has also been noted by Kondratieff and Wicksell. A third, running in terms of gold and price movements, has been advanced by Cassel, Warren and Pearson, Woytinsky, and others.

According to the first theory, the periods of prolonged good times are periods in which there is a favorable underlying basis for the growth of real investment in the development of technology, innovations, and the discovery of new resources. In such periods, it is said, the pace of technological progress is accelerated far beyond what may be expected from the usual run of multitudinous inventions, each of relatively small significance. In the long periods of good times quite revolutionary new techniques are introduced which profoundly change the character of the whole economy. In the periods of the prolonged hard times these exceptional technological developments are damped down or run out. The great investment opportunities exploited in the preceding period of good times are now largely exhausted. General technological improvements of a less profound character are, to be sure, going on, gradually raising the productivity of labor and increasing the real income. Indeed, the great technological advance and the vast real investments completed by the end of the long period of good times become the foundation upon which an advancing real income is projected into the succeeding period of preponderantly hard times. The rise in income experienced in this period is a function of the higher productivity of the factors of production achieved by the technical advance of the preceding period, but the preponderance of hard times reveals itself in a marked degree of unemployment and in the failure of the upswings of the major business cycles to reach a condition of full economic activity.

Professor Schumpeter, with his emphasis on the role of innovations, explains the prolonged good times of the first long wave by the emergence of the Industrial Revolution and the first long period of hard times by the readjustments and adaptations necessary once this new structure had become more or less firmly incorporated into the economic system. The second period of buoyant good times he explains by the admittedly new revolutionary technique which perhaps more than anything else has profoundly altered the character of modern industrial civilization, namely, the railroad. There can be no question that the development of the railroad opened up vast real investment outlets throughout the Western world, and that this gave a continuous upward push to the economy, making every burst of investment associated with the

major business cycle a pronounced and strong one and tending to weaken the forces making for depression. In the last quarter of the nineteenth century, however, came a sharp decline in the rate of growth of the railroad industry. The third period of prolonged good times Professor Schumpeter explains by the emergence of the electrical, chemical, and automotive industries. Wicksell, in his famous Chapter XI in *Interest and Prices*, published in 1898, emphasized fundamentally the same technological factors which are heavily relied upon in Professor Schumpeter's explanation. Spiethoff similarly stresses technological developments in his analysis. . . .

. . . Thus, off balance, we conclude that gold and monetary factors play a subsidiary role and that the main causes of the long periods of good times and of chronic depression must be sought in technological and innovational factors, and at times in greater or less degree in the fiscal policies of governments hitherto related mainly to the conduct of war.

According to the technological and innovational thesis, the electrification and motorization of the American economy dominated the period from the late nineties to 1929. From this standpoint this epoch may be compared with the period of rapid expansion in railroadization from the middle forties to the decade of the seventies. Both of these innovations caused a profound structural change in economic life and institutions. Both relate mainly to speed of communication and transportation. Both opened up enormous opportunities for real investment, not only directly in the railroads, in automobile factories, and in roads, but also in a vast network of underlying and supplementary industries, including for the last period, glass, rubber, steel, cement, electrical appliances, petroleum, and the like. These epochs are clear illustrations of the profound impact of the rise of quite new techniques giving birth to a range of new industries and expanding and developing old ones into new lines. Both epochs represent a period of rapid growth and expansion. But all new developments finally reach the stage of maturity. Thus, new railroad mileage experienced a rapidly rising trend from the middle forties to the decade of the seventies, and thereafter flattened out with, however, a major spurt in the middle eighties, and eventually in the nineties sharply declined. Similarly, the production of automobiles and the construction of roads experienced a rapid growth into the decade of the twenties. But this rate of growth could obviously not be continued indefinitely. Automobile production gradually reached an asymptotic level after 1923, and the curve of the

construction of roads similarly flattened out toward the end of the twenties and thereafter declined.

In the long sweep of technological and innovational developments the decade of the thirties is, therefore, in many respects not unlike the fourth quarter of the nineteenth century, with its deep depressions of the seventies and the nineties. Thus, against the background of earlier experience the decade of the thirties is more understandable.

The early expansion of the railroad served to promote vigorous booms and to cut short temporary lapses into depression. But progressively the railroad reached maturity and eventually ceased to grow. The mere slowing down in the rate of growth caused an absolute decline in the volume of new investment required in the plant and equipment of subsidiary industries, such as iron and steel, which manufactured the materials that went into railroad construction. Those who point to the high level of new railroad construction which continued on into the eighties miss the point. It is not enough that new railroad construction should continue at the high level reached. New construction must *continue to rise at a constant rate* if new investment in the underlying, subsidiary industries is to be maintained at the pace set. Thus, the mere slowing down in the rate of increase in new railroad construction was already beginning to have a damping effect on the economy long before there was an actual decline in the volume of new construction. This is the important lesson which we learn from the acceleration principle. The sharp decline in railroad construction in the decade of the nineties was a significant factor in that depressed decade.

But now a new era of buoyancy superseded the railroad era—the era of electricity and motorcars. The three decades 1900-29 witnessed the rise of four new giant industries. Street cars led the way in the nineties and reached its investment peak (\$2.5) in the decade 1900-09. Capital outlays on telephones increased rapidly after 1900 and doubled in each of the two succeeding decades, rising to \$2.5 billions in the twenties. Electric power investment first assumed large proportions in the decade 1900-09 (\$1.7 billions), increased 50 per cent in the following decade, and leaped forward with a capital expenditure of \$8.1 billions in the twenties. Automobile production, from only 4,000 units in 1900, rose to 187,000 units in 1910, 1,000,000 in 1915, 2,200,000 in 1920, 4,400,000 in 1925, and 5,600,000 in 1929. Garages, repair shops, and service stations multiplied throughout the country. Thus, the automobile industry not only fostered gigantic production plants, largely con-

centrated in a single industrial area, but also opened opportunities for thousands of small business units located in all sections of the country roughly in proportion to the consuming population. Major subsidiary industries were created or expanded on the tide of the vast purchasing power of the automobile industry, including such giants as Petroleum, Rubber, Glass Plate, and Steel. Finally, outlays on public roads, largely induced by the rise of the automobile, reached the figure of \$9.9 billions in the decade 1920-29.

Thus, an era of buoyant prosperity was generated by the growth of four great industries: street railways, telephone, electric power, and automobile industries (including Petroleum, Rubber, and Glass Plate, largely accessory to the Automobile). Also important, but nevertheless dwarfed by the four giants, were the movie, chemical, and electrical equipment industries.

Just as the railroad expansion came to an end, so also the buoyant era of 1900-29. Street railway development was largely completed in the first decade, telephone and automobile expansion in the third decade. Electric power alone remains with large prospects for further growth. The great era of expansion was over by 1930. Thus, the decade of the thirties resembles the conditions in the nineties. Technological developments making for expansion had temporarily spent their force. This does not mean, however, that eras of buoyant expansion are permanently a thing of the past. The progress of technology, we can be reasonably certain, will sooner or later open outlets for enlarged streams of investment in great new industries.

*Structural Changes in American Economy.* Thus far we have seen that the decade of the thirties is largely understandable in terms of past experience. But our analysis would remain incomplete if we neglected to consider one important structural change in our economy for which we have no precedent in the past. Always, in the past century, expansion has rested not merely on *intensive* investment arising from technological progress, but also on extensive growth—the occupation of new territory and the growth of population. The nineteenth century was a unique era of *extensive* growth.

Approximately in the period of 1915-30, the rate of extensive growth rapidly slowed down. The decennial increment of population growth in northern and western Europe, including the three great powers, the United Kingdom, Germany, France, and the smaller northern and western countries—Scandinavia, Finland, Belgium, Holland, Switzerland, and the Irish Free State—continued to rise, or at any rate did not decline ma-

terially until the first World War. The following table (calculated from Kuczynski's *The Balance of Births and Deaths*, p. 9) gives the approximate increases for the eleven countries of northern and western Europe referred to above. The period 1913 to 1926 is omitted, since the war abnormally reduced the rate of population growth. The decade 1926-36 may be regarded as representative of post-war normal rate of growth.

Decade	Increase
1883-93	10,290,000
1893-03	14,950,000
1903-13	14,510,000
1926-36	9,468,000

In the United States the decline came later, as shown in the table which follows:

Decade	Increase
1900-10	16,138,000
1910-20	14,923,000
1920-30	15,901,000
1930-40	9,218,000

In northern and western Europe the turning point came with the first World War. In the United States it came in 1924.

The expansion of Europe into new territory (in terms of both migration and foreign investments) came to an abrupt halt in the first World War and, while resumed in the twenties, did not again attain its former level. In the United States the expansion into the great West was followed by several decades of urbanization; and then we turned (via capital export) on a large scale to less developed countries. This movement ended in the Great Depression. Doubtless, under more favorable political conditions, there is still room for considerable foreign investment in the less industrialized parts of the world, and it may be expected again sooner or later to be resumed on a fairly large scale. But no one is likely to challenge the statement that the era of development and settlement of new territory is largely over. The role of territorial expansion is likely to be much less in the next half century than was the case in the nineteenth century relative to national income.

The rapid decline in population growth and the exhaustion of the world frontier may well have a causal interconnection. Certainly it is true that, so long as there were great new territories to be opened and developed, rapid population growth was a healthy economic development. With an increasing exhaustion of opportunities for settlement and exploitation of new territory, the continuation of the nineteenth-century rate of popu-

lation growth would rapidly have given rise to insoluble economic problems.

It is true that the sudden and drastic decline in the rate of population growth so far has affected mainly western Europe, and highly developed industrial countries, such as the United States. It is also true that there are still areas which have a long way to go in the process of industrialization. But just as the rate of population growth in the highly industrialized countries has rapidly declined and in some is approaching zero, so also the possibilities of large outlets for foreign investment by these countries appear meager, in terms of national income and wealth, in comparison with those of the nineteenth century. While it is not possible statistically to measure the rate of decline in investment opportunities with the precision that is possible with respect to population growth, in general the two movements appear to exhibit a somewhat parallel development. . . .

Population growth and territorial expansion opened vast outlets for *extensive* investment of capital. But, it is argued, may not equally favorable opportunities for *intensive* investment take their place? The answer appears to be that in the past we have enjoyed opportunities for *both* extensive and intensive investment. Now *extensive expansion* is largely over, and there remains only the possibility of intensive developments. But intensive investment is not something new. Intensive and extensive developments have proceeded together, each reinforcing the other. New technological developments underlie the nineteenth century of expansion. But population growth and the penetration into new territory, in turn, played an important role in the widening of the market and the development of mass production techniques. Extensive expansion minimized the risks of technological innovations and encouraged bold experimentation. Thus extensive expansion stimulated intensive expansion. On the other side, the pressure to find investment opportunities, in view of the slowing down of extensive growth, will be greater in the future. Industrial research is now far more systematic and more generously financed than ever before.

The era of buoyant prosperity (1844-73), based largely on the railroad, was intimately linked up with extensive growth and expansion. The next buoyant era (1900-29), based on electricity and the automobile, had less to do with mere extensive growth and expansion into new territory, and involved a much more radical transformation in consumption habits and ways of living. This sort of transformation, involving vast investment of capital, can take place without extensive growth,

and under the progress of technology we shall doubtless experience again far-reaching revolutionary innovations of this sort. There is, perhaps, inherent in the process of innovation a cumulative tendency which may be described in terms of a geometric progression. That this was true, even of the past century, is at least in part supported by the fact that the percentage rate of increase in per capita real income was approximately a constant. It is, of course, always possible that the rate of technological development may in the future exceed the geometric rate of the past, but here obviously one enters a field of speculation which can be settled only by the actual course of future historical events. It is, at any rate, a question whether intensive investment can attain the buoyancy and tempo of earlier periods when technological developments were stimulated by population growth and territorial expansion.

The decline in the rate of extensive expansion may partly account for the structural change which we are witnessing in economic institutions. The economic order is undergoing progressively changes in its internal organization which affect its functioning and operation—defense mechanisms, they may be, which seek more or less blindly and experimentally to adjust the economy to an era of less rapid extensive growth. These changes are commonly described in terms of a shift from a free market economy to a planned economy.

In the nineteenth century an automatic price mechanism functioned with relatively little intervention or control from organizational influences, whether governmental or private. Each individual unit in the process of production constituted, so to speak, only a small atom, unable to control but instead controlled by the general forces inherent in the price mechanism. And while, particularly from 1870 on, institutional interferences with the automatic functioning of the price system were gradually developing, it is, broadly speaking, true that these played a relatively minor role until the first World War. Just as wars have frequently acted as a profound stimulus upon technological development, so also the first World War enormously accelerated the development of institutional interferences with the price mechanism. An increasing degree of regimentation by both public and private organization developed with startling rapidity. Instruments of control that had gradually been taking shape were perfected and utilized on a wide scale. This revealed itself in monetary and fiscal policy and also in corporate, labor, and other private control mechanisms.

In a free market economy no single unit was

sufficiently powerful to exert any appreciable control over the price mechanism. In a controlled economy the government, the corporation, and organized groups all exercise a direct influence over the market mechanism. Many contend that it is just this imperfect functioning of the price system which explains the failure to achieve reasonably full employment in the decade of the thirties. Some place the blame on corporate price policies, some on trade-union practices, and some on the restrictions imposed by government.

There can be no doubt that these profound

changes in institutional arrangements are significant. It is not possible to go back to the atomistic order. Corporations, trade-unions, and government intervention we shall continue to have. Modern democracy does not mean individualism. It means a system in which private, voluntary organization functions under general, and mostly indirect, governmental control. Dictatorship means direct and specific control. We do not have a choice between "plan and no plan." We have a choice only between democratic planning and totalitarian regimentation.

## JOHN DEWEY

JOHN DEWEY is known the world over as one of the most thorough-going philosophers of democracy. As he understands democracy, it is a phase of human experience that brings with it a "reconstruction" not only of society, but of the interpretation of man's relation to the world in general. He sees in the emergence of "a common faith," in the more general participation of people in the arts and sciences, in the gradual breaking down of barriers of class, custom, and prejudice by the inventions that have facilitated communication and publicity, a general transformation of the range and quality of human experience. "Communication" is for him, the "most wonderful of all affairs"; for out of the arts of communication grow science, education, arts, markets, governments—all the institutions which make it possible for men to share with each other on a significant scale. Education is learning to participate in these common outlooks and enterprises. Faith in the common man, in the potentialities of human nature, is for Dewey a hallmark of democratic culture, and its moral meaning "is found in resolving that the supreme test of all political institutions and industrial arrangements shall be the contribution they make to the all-around growth of every member of society."

Dewey's philosophy of democracy is different from that of most of his predecessors of the nineteenth century by virtue of the greater importance he attaches to experimental thinking as an integral factor in making

democracy work. Liberty and equality are not for Dewey separable from fraternity, for by fraternity (in the sense of cooperative, shared inquiry) liberty and equality can be gradually achieved. They are not the endowments of individuals, but the fruits of democratic society. The democratic process of spreading public responsibility over progressively wider areas demands the extensive fostering of the powers of free thought and independent judgment. The democratic process is for Dewey the more generous communication of experience and sharing of services; from such a progressive extension of participation comes increased responsibility, and interests thus become genuinely public.

Dewey's repeated emphasis is that democracy needs to be more than a form of government, that it must be a way of life dependent on the degree to which individuals are themselves democratic, that is to say, in proportion to their commitment to methods of voluntary association and agreement and to mutual consultation. In the final analysis, the justification of democracy "as the truly human way of living" is in the similarity it bears to the experimental method, and its effectiveness rests upon the ability to assimilate that method to everyday problems. "It is of the nature of science not so much to tolerate as to welcome diversity of opinion, while it insists that inquiry brings the evidence of observed facts to bear to effect a consensus of conclusions—and even then to



hold the conclusion subject to what is ascertained and made public in further new inquiries. I would not claim that any existing democracy has ever made complete or adequate use of scientific method in deciding upon its policies. But freedom of inquiry, toleration of diverse views, freedom of communication, the distribution of what is found out to every individual as the ultimate intellectual consumer, are involved in the democratic as in the scientific method." (*Freedom and Culture*, N.Y., 1939.)

For the realization of his ideals Dewey relies less on government than on "voluntary associations." Schools, laboratories, unions, lobbies, any cooperative attempt at achieving some common good—not to be possessed as an exclusive property, but to be shared with still wider groups—these are the institutions of de-

mocracy. Government is democratic insofar as it is the servant of these many groups with their diversified interests, regulating them in the sense of preventing reciprocal frustration of interests. Thus Dewey arrives at a pluralistic socialism, a community of associated interests and goods, held together less by state control and ownership than by publicity of interests and sharing of responsibilities. Dewey's conception of democracy has come at least in part from his experience with educational practice and administration and has in turn contributed tremendously to the reshaping of educational aims and methods.

The following selection is taken from his speech before the National Education Association, 1937, and was published in *School and Society*, April, 1937, under the title *Democracy and Educational Administration*.

## Democracy

BY JOHN DEWEY

... DEMOCRACY is much broader than a special political form, a method of conducting government, of making laws and carrying on governmental administration by means of popular suffrage and elected officers. It is that, of course. But it is something broader and deeper than that. The political and governmental phase of democracy is a means, the best means so far found, for realizing ends that lie in the wide domain of human relationships and the development of human personality. It is, as we often say, though perhaps without appreciating all that is involved in the saying, a way of life, social and individual. The key-note of democracy as a way of life may be expressed, it seems to me, as the necessity for the participation of every mature human being in formation of the values that regulate the living of men together: which is necessary from the standpoint of both the general social welfare and the full development of human beings as individuals.

Universal suffrage, recurring elections, responsibility of those who are in political power to the voters, and the other factors of democratic government are means that have been found expedient for realizing democracy as the truly human way of living. They are not a final end and a final value. They are to be judged on the basis of their contribution to end. It is a form of idolatry to

erect means into the end which they serve. Democratic political forms are simply the best means that human wit has devised up to a special time in history. But they rest back upon the idea that no man or limited set of men is wise enough or good enough to rule others without their consent; the positive meaning of this statement is that all those who are affected by social institutions must have a share in producing and managing them. The two facts that each one is influenced in what he does and enjoys and in what he becomes by the institutions under which he lives, and that therefore he shall have, in a democracy, a voice in shaping them, are the passive and active sides of the same fact.

The development of political democracy came about through substitution of the method of mutual consultation and voluntary agreement for the method of subordination of the many to the few enforced from above. Social arrangements which involve fixed subordination are maintained by coercion. The coercion need not be physical. There have existed, for short periods, benevolent despotisms. But coercion of some sort there has been; perhaps economic, certainly psychological and moral. The very fact of exclusion from participation is a subtle form of suppression. It gives individuals no opportunity to reflect and decide upon



what is good for them. Others who are supposed to be wiser and who in any case have more power decide the question for them and also decide the methods and means by which subjects may arrive at the enjoyment of what is good for them. This form of coercion and suppression is more subtle and more effective than is overt intimidation and restraint. When it is habitual and embodied in social institutions, it seems the normal and natural state of affairs. The mass usually become unaware that they have a claim to a development of their own powers. Their experience is so restricted that they are not conscious of restriction. It is part of the democratic conception that they as individuals are not the only sufferers, but that the whole social body is deprived of the potential resources that should be at its service. The individuals of the submerged mass may not be very wise. But there is one thing they are wiser about than anybody else can be, and that is where the shoe pinches, the troubles they suffer from.

The foundation of democracy is faith in the capacities of human nature; faith in human intelligence and in the power of pooled and cooperative experience. It is not belief that these things are complete but that if given a show they will grow and be able to generate progressively the knowledge and wisdom needed to guide collective action. Every autocratic and authoritarian scheme of social action rests on a belief that the needed intelligence is confined to a superior few, who because of inherent natural gifts are endowed with the ability and the right to control the conduct of others; laying down principles and rules and directing the ways in which they are carried out. It would be foolish to deny that much can be said for this point of view. It is that which controlled human relations in social groups for much the greater part of human history. The democratic faith has emerged very, very recently in the history of mankind. Even where democracies now exist, men's minds and feelings are still permeated with ideas about leadership imposed from above, ideas that developed in the long early history of mankind. After democratic political institutions were nominally established, beliefs and ways of looking at life and of acting that originated when men and women were externally controlled and subjected to arbitrary power, persisted in the family, the church, business and the school, and experience shows that as long as they persist there, political democracy is not secure.

Belief in equality is an element of the democratic credo. It is not, however, belief in equality of natural endowments. Those who proclaimed the idea of equality did not suppose they were enunciating

a psychological doctrine, but a legal and political one. All individuals are entitled to equality of treatment by law and in its administration. Each one is affected equally in quality if not in quantity by the institutions under which he lives and has an equal right to express his judgment, although the weight of his judgment may not be equal in amount when it enters into the pooled result to that of others. In short, each one is equally an individual and entitled to equal opportunity of development of his own capacities, be they large or small in range. Moreover, each has needs of his own, as significant to him as those of others are to them. The very fact of natural and psychological inequality is all the more reason for establishment by law of equality of opportunity, since otherwise the former becomes a means of oppression of the less gifted.

While what we call intelligence be distributed in unequal amounts, it is the democratic faith that it is sufficiently general so that each individual has something to contribute, whose value can be assessed only as enters into the final pooled intelligence constituted by the contributions of all. Every authoritarian scheme, on the contrary, assumes that its value may be assessed by some *prior* principle, if not of family and birth or race and color or possession of material wealth, then by the position and rank a person occupies in the existing social scheme. The democratic faith in equality is the faith that each individual shall have the chance and opportunity to contribute whatever he is capable of contributing and that the value of his contribution be decided by its place and function in the organized total of similar contributions, not on the basis of prior status of any kind whatever.

I have emphasized in what precedes the importance of the effective release of intelligence in connection with personal experience in the democratic way of living. I have done so purposely because democracy is so often and so naturally associated in our minds with freedom of *action*, forgetting the importance of freed intelligence which is necessary to direct and to warrant freedom of action. Unless freedom of individual action has intelligence and informed conviction back of it, its manifestation is almost sure to result in confusion and disorder. The democratic idea of freedom is not the right of each individual to *do* as he pleases, even if it be qualified by adding "provided he does not interfere with the same freedom on the part of others." While the idea is not always, not often enough, expressed in words, the basic freedom is that of freedom of *mind* and of whatever degree of freedom of action and experience is

necessary to produce freedom of intelligence. The modes of freedom guaranteed in the Bill of Rights are all of this nature; Freedom of belief and conscience, of expression of opinion, of assembly for discussion and conference, of the press as an organ of communication. They are guaranteed because without them individuals are not free to develop and society is deprived of what they might contribute. . . .

There is some kind of government, of control, wherever affairs that concern a number of persons who act together are engaged in. It is a superficial view that holds government is located in Washington and Albany. There is government in the family, in business, in the church, in every social group. There are regulations, due to custom if not to enactment, that settle how individuals in a group act in connection with one another.

It is a disputed question of theory and practice just how far a democratic political government should go in control of the conditions of action within special groups. At the present time, for example, there are those who think the federal and state governments leave too much freedom of independent action to industrial and financial groups, and there are others who think the government is going altogether too far at the present time. I do not need to discuss this phase of the problem, much less to try to settle it. But it must be pointed out that if the methods of regulation and administration in vogue in the conduct of secondary social groups are non-democratic, whether directly or indirectly or both, there is bound to be an unfavorable reaction back into the habits of feeling, thought and action of citizenship in the broadest sense of that word. The way in which any organized social interest is controlled necessarily plays an important part in forming the dispositions and tastes, the attitudes, interests, purposes and desires, of those engaged in carrying on the activities of the group. For illustration, I do not need to do more than point to the moral, emotional and intellectual effect upon both employers and laborers of the existing industrial system. Just what the effects specifically are is a matter about which we know very little. But I suppose that every one who reflects upon the subject admits that it is impossible that the ways in which activities are carried on for the greater part of the waking hours of the day; and the way in which the share of individuals are involved in the management of affairs in such a matter as gaining a livelihood and attaining material and social security, can not but be a highly important factor in shaping personal dispositions; in short, forming character and intelligence.

In the broad and final sense all institutions are educational in the sense that they operate to form the attitudes, dispositions, abilities and disabilities that constitute a concrete personality. The principle applies with special force to the school. For it is the main business of the family and the school to influence directly the formation and growth of attitudes and dispositions, emotional, intellectual and moral. Whether this educative process is carried on in a predominantly democratic or non-democratic way becomes, therefore, a question of transcendent importance not only for education itself but for its final effect upon all the interests and activities of a society that is committed to the democratic way of life. . . .

There are certain corollaries which clarify the meaning of the issue. Absence of participation tends to produce lack of interest and concern on the part of those shut out. The result is a corresponding lack of effective responsibility. Automatically and unconsciously, if not consciously, the feeling develops, "This is none of our affair; it is the business of those at the top; let that particular set of Georges do what needs to be done." The countries in which autocratic government prevails are just those in which there is least public spirit and the greatest indifference to matters of general as distinct from personal concern. Can we expect a different kind of psychology to accrete teachers? Where there is little power, there is correspondingly little sense of positive responsibility. It is enough to do what one is told to do sufficiently well to escape flagrant unfavorable notice. About larger matters, a spirit of passivity is engendered. In some cases, indifference passes into evasion of duties when not directly under the eye of a supervisor; in other cases, a carping, rebellious spirit is engendered. . . .

It still is also true that incapacity to assume the responsibilities involved in having a voice in shaping policies is bred and increased by conditions in which that responsibility is denied. I suppose there has never been an autocrat, big or little, who did not justify his conduct on the ground of the unfitness of his subjects to take part in government. . . . What the argument for democracy implies is that the best way to produce initiative and constructive power is to exercise it. Power, as well as interest, comes by use and practice. Moreover, the argument from incapacity proves too much. If it is so great as to be a permanent bar, then teachers can not be expected to have the intelligence and skill that are necessary to execute the directions given them. The delicate and difficult task of developing character and good judgment in the

young needs every stimulus and inspiration possible. It is impossible that the work should not be better done when teachers have that understanding of what they are doing that comes from having shared in forming its guiding ideas. . . .

The fundamental beliefs and practices of democracy are now challenged as they never have been before. In some nations they are more than challenged. They are ruthlessly and systematically destroyed. Everywhere there are waves of criticism and doubt as to whether democracy can meet pressing problems of order and security. The causes for the destruction of political democracy in countries where it was nominally established are complex. But of one thing I think we may be

sure. Wherever it has fallen it was too exclusively political in nature. It had not become part of the bone and blood of the people in daily conduct of its life. Democratic forms were limited to Parliament, elections and combats between parties. What is happening proves conclusively, I think, that unless democratic habits of thought and action are part of the fiber of a people, political democracy is insecure. It can not stand in isolation. It must be buttressed by the presence of democratic methods in all social relationships. The relations that exist in educational institutions are second only in importance in this respect to those which exist in industry and business, perhaps not even to them. . . .

# THE AMERICAN SCENE

## THE BONUS ARMY

AS FAR AS official Washington during the years of the depression was concerned, there was no more disturbing element in the domestic scene than the appearance of an organized veterans' pressure group. Unemployment played no favorites; and veterans, like millions of other workers, found themselves without homes, jobs, and financial resources. But veterans had a claim on the government: they were the holders of so-called "adjusted compensation certificates." These had been voted as a Soldiers' Bonus to all those who had served in World War I, but they did not carry immediate maturities. It was this desire to urge the cashing of the certificates at once that prompted a spontaneous movement on the part of veterans all over the country to converge on Washington. In the spring of 1932, the march of the "Bonus Army" began, and be-

fore long thousands of veterans were living in a mean little shantytown—the epitome of all the "Hoovervilles" throughout the country—on Anacostia Flats outside of Washington.

It is this "Bonus Army" that Gardner Jackson describes in his article, *Unknown Soldiers*, here reprinted from *The Survey* of August 1, 1932. The veterans maintained order and waited quietly while Congress discussed the Bonus bill—and rejected it. On July 28, orders were given by the War Department to break up the camp and disperse the soldiers. Paul Y. Anderson presents an eyewitness account of the resulting "Battle of Anacostia Flats" in his Washington report to *The Nation* in its issue of August, 17, 1932. After the events recorded here, Herbert Hoover could not possibly win the election of 1932.

### *Unknown Soldiers*

BY GARDNER JACKSON

THE ARMY of bonus-seeking veterans now laying siege to the Nation's Capitol fits into no precise category formulated by sociologists or mass psychologists. The abstractions phrased by academic students of the faltering American system do not encompass the swift-moving and vital forces which sent thousands of men in their prime of life to dig in like rats along Pennsylvania Avenue and on the Anacostia mud flats bordering the Potomac River, with a defiant yet passive determination which still held when this article was written, July 1.

They are a conglomerate and colorful mass, these men of thirty-five to forty-five years old, who have been thrown out of jobs and homes by the collapse of the post-war boom. Like their more learned brothers, the economists, they are quite bewildered. They know neither the cause of the depression nor the way out. But they have found something to do immediately. They have dis-

covered that the mass technique which they learned as recruits or drafted men preparing to fight for the American scheme of life, liberty and the pursuit of happiness is serviceable to them in times of peace when that scheme has failed them. And they fall back into that technique as easily as if it had been just yesterday that they first stumbled into squads, platoons and companies under the bullying of a tough top-sergeant. Without second thought they called themselves "The Bonus Expeditionary Force."

One may not agree intellectually or even sympathize emotionally with the stated object of these bonus marchers on their spontaneous trek from all corners of the country to Washington. But one cannot mingle much with them and escape the positive impression that a large proportion of them are moved by more than a mere urge to collect a few hundred dollars apiece. Blindly, if you

will, they are searching for security, and many of them realize that a few hundred dollars will not give them that.

It is true (as this is written) that nothing in the statements of the army's leaders has outlined a program for security. They have harped almost solely upon the bonus. But in conversations with W. W. Waters, thirty-four-year-old ex-canning factory superintendent of Portland, Oregon, who led the first contingent here and who has three times been elected leader, it was clear, early in the siege, that he and his associates thought of their enterprise as one destined to be the vanguard of a march of the general unemployed to demand of Congress the enactment of a complete program that would insure jobs and relief for all. The bonus was just a strategic device they were using.

Waters, an ex-Socialist, has an attitude typical of the average run of men in the army, though he is superior to the mass in training and personality. He was driven to the adventure by sheer desperation. He had been out of a job for more than a year—which is true of 95 per cent of the bonus marchers. His wife and two small children were getting along as best they could on relief by friends and the regular agencies. Why not try to collect the fifteen hundred dollars still owing him on his adjusted service certificate? If he left home there would be one less mouth to feed.

Over and over this story, with slight variations, has been repeated to me by members of the army. "What's the good of going back home, if we haven't got jobs or money?" they ask. "The wife and kids are better off without us. They get their relief whether we're there or not. And they don't have to worry about us hanging around and about feeding us." That note of sharp discomfort over being in the home without a job is in the tones of many of them—a sense of deep uneasiness as their wives perform their housekeeping and mothering tasks under distressing circumstances or even perhaps work at odd jobs as charwomen or waitresses while they, the supposed breadwinners, are idle.

No accurate estimate of the number of married men among the fifteen thousand to twenty thousand bonus marchers is possible, but it is safe to place the proportion at 60 per cent. More than half of that number, to be conservative in my figures, have children. When the camps were fairly well established an increasing number of veterans began to arrive with their families. The wailing of ill-nourished youngsters became common. Milk was scarce.

These men did not appear to be starving as they hiked or rode into Washington in rattletrap old cars and trucks. This is contrary to the picture of

the men drawn by bonus-thumping politicians in Congress and by some newspaper correspondents. But consider for a moment the manner in which these marchers dug in and organized themselves on the Anacostia mud flats without help from anyone. Consider the appalling living conditions which they underwent there and elsewhere in the city for five weeks before a sign of serious sickness appeared among them. This, it seems to me, is fair evidence that they were not worn down by starvation.

That first contingent of veterans from Oregon, and those from other states which followed in rapid succession, who were lodged across the Potomac by Brig.-Gen. Pelham D. Glassford, superintendent of the District police, swept up over a hill beyond the Anacostia flats, scavenged the city dump heap on top of it and literally, within the space of several days, built their camp out of that refuse plunder. Such an accomplishment hardly seems the work of men languid from under-nourishment.

Egg-crates, paper-boxes, rusty bed-springs; fenders, bodies and seats from junked autos; pieces of corrugated iron roofing, rusty fence-wire, filthy old bed-ticking, chicken-coops, moth-eaten blankets, parts of baby carriages—these and scores of other articles composing the dump-heap of a large city went to make the dog hovels under which the veterans sought protection. Burdock leaves and long grasses from the mud flats, woven into the chicken wire, were prized roofing material. There the veterans slept, under primitive shelters barely high enough to allow their bodies to turn, and there many of them still sleep, rain or shine, under conditions reminiscent of war. This Anacostia camp is the main camp, housing, or perhaps more accurately, sheltering ten thousand members of the army.

Through the good offices of General Glassford, the only official of either the District of Columbia or the federal government willing to assume responsibility for the care of the veterans, a small amount of lumber was secured to build sheds. He also was instrumental in borrowing some tents from a neighboring National Guard outfit, while other tents were set up by the "Sallies" and other religious organizations. One of the tents had a large sign on it proclaiming, "Christian Services—morning—afternoon—evening—Jesus Saves."

The ex-soldiers outside the Anacostia camp—those in the vacant buildings and in the two camps where barracks and tents were ready, fared somewhat better. But even they, lacking anything approaching an adequate supply of cots, beds or mattresses, have been living a decidedly uncomfortable

able life. Yet they all have shown a surprising resilience under it—hardly the resilience of starving men.

Though not actually starving, these men—the 60 per cent of them who are not mere floaters or out for a lark—are at the end of their ropes. They are close enough to starvation to know what it means for themselves and their families. The depression began to get its talons in them over a year ago. The stark realization of what they are up against came gradually. They lost their regular jobs as sheet-metal workers, lumberjacks and sewer builders. They were able to piece out for a while with odd jobs—jobs mowing lawns, helping in truck gardens, washing automobiles, digging ditches, doing anything to get a few dollars for home. Then these odd jobs got scarcer and were no longer to be had. That's the average story of the army. . . .

Comment has been general on the excellent discipline evidenced by the polyglot army in which Negroes and whites mingled without restriction and in which the relatively few white-collar workers—the lawyers, doctors, newspaper men and office men—are taking the scanty pot-luck with coal miners, truck drivers and plumbers. The men up to the time these words are set down have, indeed, practised the first large scale attempt to mimic Mahatma Gandhi's passive resistance (I might be thrown out as a red if I told them that in

person). Gathered in large numbers around the Capitol the night the Senate voted down the bonus bill, they were in an uncertain mood when they heard the news. There was great tension and considerable growling. A brief word from young Waters on the Capitol steps sent them home. Nor did their resentment flare into active demonstration when the police raised the drawbridge over the Potomac to keep back a large body of them headed for the Capitol.

Among the factors contributing to this passivity, three seem to me prominent. First is the understanding and intelligent handling of their problems by General Glassford and the police under his direction. Second is the habit of routine and acquiescence established in them by their service in the War—a habit which is not easily lost once it is firmly implanted. Third is realization by the veterans that, although they have far from universal support for their bonus demand, they have strong sympathy of large sections of public opinion for their general predicament. They have the hunch that violence of any kind might alienate that support. . . .

But there has been no genuine leadership. That is one of the tragedies of this army, this microcosm of American life under conditions of a deep depression. Which way are the forces to turn? . . .

### *Tear-Gas, Bayonets, and Votes*

BY PAUL Y. ANDERSON

HOOVER'S CAMPAIGN for reelection was launched Thursday, July 28, at Pennsylvania Avenue and Third Street, with four troops of cavalry, four companies of infantry, a mounted machine-gun squadron, six whippet tanks, 300 city policemen and a squad of Secret Service men and Treasury agents. Among the results immediately achieved were the following:

Two veterans of the World War shot to death; one eleven-weeks-old baby in a grave condition from gas, shock, and exposure; one eight-year-old boy partially blinded by gas; two policemen's skulls fractured; one bystander shot through the shoulder; one veteran's ear severed with a cavalry saber; one veteran stabbed in the hip with a bayonet; more than a dozen veterans, policemen, and soldiers injured by bricks and clubs; upward of 1,000 men, women, and children gassed, including policemen, reporters, ambulance drivers, and residents of Washington; and approximately \$10,000 worth of property destroyed by fire, including clothing, food, and temporary shelters of the

veterans and a large amount of building material owned by a government contractor. . . .

Save for the feeble gestures of the isolated Communist group there was no trouble until that fatal Thursday, due in part to the remarkable tact and common sense of General Glassford, the chief of police, in part to the discipline enforced by the leaders of the camps, and in part to the essentially law-abiding instincts of the men themselves. The worthy Hurley mouths indignant phrases about "panhandling" and "forced tribute from citizens," but in all my visits to the camps I was never asked for anything more valuable than a cigarette—and I am a fairly prosperous looking citizen. As soon as Congress adjourned there was a steady exodus of the campers, as attested by the daily statements of the Veterans' Bureau, dutifully reported by the Associated Press and Administration newspapers. Responsible officials repeatedly declared it was only a matter of days until all would be gone.

But suddenly someone high in authority decided the government must have immediate possession

of the partially razed block bounded by Third and Fourth Streets and Pennsylvania and Missouri Avenues, where about 1,500 were existing in abandoned buildings and makeshift huts. Most of these people were from Texas, California, the Carolinas, Nebraska, West Virginia, and Florida, which are not exactly hotbeds of "radicalism." Instructions went from the Treasury to the District commissioners to have the police evict the squatters. On two occasions Glassford convinced the commissioners that the police had no authority to conduct such evictions, and pointed out that the procedure for eviction is definitely prescribed by law. On Wednesday there was a conference at the White House attended by Hurley, Attorney-General Mitchell, and General Douglas MacArthur, chief of staff of the army. On Thursday morning Glassford was informed that Treasury agents would begin evacuation of a part of the block, and that if anyone resisted eviction he was to be arrested for disorderly conduct. This meant that the actual eviction would be done by the police, and so it worked out. Someone had devised a technicality for getting around the law. Glassford's protests were unavailing. It was obvious that irresistible pressure had been applied to the commissioners.

One building was emptied with little difficulty of all but one occupant—a legless veteran whom Glassford permitted to remain until the Veterans' Bureau could take care of him. An hour later, at noon, three men, one carrying a large American flag, started a march across the block, followed by several hundred. When the leaders encountered a policeman he grabbed the flag. There was a scuffle, and one of the marchers was hit on the head with a nightstick. He wrested it from the officer and struck back. Other policemen rushed toward the spot, and there was a shower of bricks from the marchers in the rear. I was standing about forty feet away, and it looked like an ugly mess, but the cops kept their heads and no shots were fired. Glassford dashed into the heart of the melee, smiled when a brickbat hit him in the chest, and stopped the fighting in a few seconds. Within two minutes the veterans were cheering him lustily. Two policemen had been badly hurt by thrown bricks, and several veterans were bleeding from the clubbing they had received and from accidental hits from within their own ranks.

The trouble was resumed with more serious consequences two hours later when a policeman attempted to bar several veterans from a building which, in fact, had not been prohibited to them. They rushed him and he shot. A fellow officer coming to his assistance was hit with a missile and likewise opened fire. Still others joined in. Glass-

ford, on the second floor of the same building, commanded his men to stop shooting, and the policeman who had fired the first shot and who apparently was hysterical, whirled and aimed his revolver at the chief. In this encounter two veterans were fatally wounded, another received a flesh wound, and a bystander got a policeman's bullet in the shoulder.

It was soon afterward that Glassford made an illuminating statement to reporters. He said: "The trouble began when I was compelled to enforce an order which I considered unnecessary. In a few more hours this area could have been evacuated peacefully."

The truth of this statement seemed evident. The men had been advised by their leaders to move, better quarters had been promised, and plainly they were ready to follow Glassford's counsel. The trouble was that someone in authority had determined to force the issue. Two District commissioners reported to President Hoover that the civil authorities were "unable to maintain order," and within a few minutes infantry, cavalry, machine-gunners, and tanks were on their way from Fort Myer and Fort Washington—although they were delayed an hour in the rear of the White House while an orderly dashed back to Fort Myer for the tunic, service stripes, and English whipcord breeches of General MacArthur, the valiant chief of staff having steeled himself to lead the offensive in person. Again we have a significant disclosure from General Glassford, the one official whose judgment, courage, and knowledge of conditions had been conspicuous.

He did not tell the commissioners that the police were unable to handle the situation—on the contrary, he told them the police could handle it "unless the field of operations was to be expanded"; he did not ask for troops, was not consulted about calling them out, was not informed they were coming, and was not consulted by their officers when they arrived. In short, the whole affair had been taken out of his hands by someone higher in authority, someone resolved on an actual clash between the regular army and the encamped veterans. . . . Before me is a statement by Secretary Hurley which contains the following words:

No one was injured after the coming of the troops. No property was destroyed after the coming of the troops except that which was destroyed by the marchers themselves. The duty of restoring law and order was performed with directness, with effectiveness, and with unparalleled humanity and kindness.

Let us see. When the troops arrived they actually were cheered by the veterans on the south

sidewalk of Pennsylvania Avenue. A cavalry officer spurred up to the curb and shouted: "Get the hell out of here." Infantrymen with fixed bayonets and trench helmets deployed along the south curb, forcing the veterans back into the contested block. Cavalry deployed along the north side, riding their horses up on the sidewalk and compelling policemen, reporters, and photographers to climb on automobiles to escape being trampled. A crowd of three or four thousand spectators had congregated in the vacant lot on the north side of the avenue. A command was given and the cavalry charged the crowd with drawn sabers. Men, women, and children fled shrieking across the broken ground, falling into excavations as they strove to avoid the rearing hoofs and saber points. Meantime, the infantry on the south side had adjusted gas masks and were hurling tear bombs into the block into which they had just driven the veterans. Secretary Hurley states that "the building occupied by the women and children was protected, and no one was permitted to molest them."

What he means by "the building" I do not know, because scores of shanties and tents in the block were occupied by women and children. I know that I saw dozens of women grab their children and stagger out of the area with streaming, blinded eyes while the bombs fizzed and popped all around them. I saw a woman stand on the Missouri Avenue side and plead with a non-commissioned officer to let her rescue a suitcase which, she told him, contained all the spare clothing of herself and her child, and I heard him reply: "Get

out of here, lady, before you get hurt," as he calmly set fire to her shanty. . . .

Secretary Hurley defiantly announced that "statements made to the effect that the billets of the marchers were fired by troops is a falsehood." On the day when he first made this declaration it appeared in dozens of newspapers which also published a graphic Underwood and Underwood photograph of an infantryman applying a torch to a veteran's shanty, I am only one of numerous reporters who stood by while the soldiers set fire to many such shelters. In the official apologia, the Secretary asserts that "the shacks and tents at Anacostia were set on fire by the bonus marchers before the troops crossed the Anacostia Bridge." I was there when the troops crossed. They celebrated their arrival at the Anacostia terminus of the bridge by tossing gas bombs into a throng of spectators who booed and refused to "get back" as soon as ordered. About fifteen minutes after their arrival in the camp the troops set fire to two improvised barracks. These were the first fires. Prior to this General MacArthur had summoned all available reporters and told them that "operations are completely suspended," that "our objective has been accomplished," that "the camp is virtually abandoned," and that it would "not be burned." Soon after making that statement he departed for the White House. When the two barracks ignited by the soldiers had been burning fiercely for at least thirty minutes, the veterans began firing their own shelters as they abandoned them. . . .

### THREE DEMAGOGUES

In *Fantastic Interim*—which covers the period from Versailles to Pearl Harbor—Henry M. Robinson exposes some of the sillier aspects of an America, which, during the nineteen twenties and thirties, was running away from its responsibilities. Our entry into World War II was both atonement and opportunity: the world could not be at peace or economically prosperous unless we were ready to take our legitimate place in it. Robinson does not concern himself with fatuities alone. He calls attention to a sinister aspect of the nineteen thirties: the flourishing of a large company of demagogues—many with great followings—who turned back to older nativistic ideas for

the purpose of preaching hatred, division and isolationism. Because unemployment continued and security, politically and economically, was still remote, millions of Americans listened to such rabble-rousers and not infrequently talked the language of fascism.

This fault in our cultural pattern—the same one already noted here as existing in the eighteen thirties and nineties and the nineteen twenties—continues to trouble and divide Americans.

The selection here reprinted is from *Fantastic Interim* (New York, 1943) and is published by permission of Harcourt, Brace and Company.



*Fantastic Interim*

BY HENRY M. ROBINSON

## THREE ECONOMIC CORN DOCTORS

THESE WERE THE YEARS when mountebanks cavorted publicly and pushed to vicious lengths their medicine-tent panaceas. Demagoguery and pied-piperism had their innings; the unwashed multitude threw its nightcaps in the air while promises of "ham-and-egg" pensions and various share-the-wealth programs fell from the lips of dangerous men. Loudest and most persuasive was Huey Long, the Louisiana Kingfish, a historically unmatched clown, who but for his timely death might have poured disaster over the American people as he had already loosed it on his native state.

The Kingfish had used Louisiana as a proving-ground for his political methods and as a spring-board for his manic ambition. Starting as a salesman of a cure for "women's sicknesses," Huey early learned the acts of greasy eloquence and political blandishment. On a borrowed \$400 he put himself through a three-year law course in eight months, and at the age of twenty-one became a candidate for the Louisiana Railroad Commission. In screaming linen and a flashy second-hand automobile Huey penetrated remote sections never before visited by office-seekers. He handed out recipes for clabber, raised up hearts with denunciations of Wall Street and city slickers—and kept at it eighteen hours a day until he was elected. Ten years later, when he had completed his conquest of Louisiana, he was an unopposed dictator, bellowing self-made statutes at the legislature, crushing rivals as a chimpanzee cracks peanuts, or buying them up with venal cash. Of one Louisiana senator, Huey said: "I got that guy so cheap I thought I stole him." Of another: "I bought him like a sack of potatoes." With Louisiana sewed up lock, stock, and cash register, Huey turned his attention to wider fields, and forthwith had himself elected to the Senate of the United States.

For the first few months of the New Deal, the Kingfish swung his support to the Roosevelt Administration, but he became disgruntled when the White House refused to accept his bullying lead in matters of patronage and Federal funds. During a visit to the President at the White House, the boorish Long kept a brightly beribboned straw hat on his head, removing it only to tap the President on knee and elbow to emphasize a point of Kingfish doctrine. Roosevelt, coolly amused,

punished the Louisiana lout by holding up Federal cash and appointments till Huey's neck cords swelled in anger. Soon it was open war between the Kingfish and the White House, and the country got a taste of Huey's vituperative quality as he spat insults and charges from the floor of the Senate. His particular target was Jim Farley, whom he accused (utterly without basis) of diverting Post Office contracts for personal gain. "Jim can take the corns off your feet without removing your shoes," he told the Senate. Sartorially resplendent in a tan poplin suit and a necktie of mottled green and red, he pilloried Administration leaders while the galleries roared. Down the list he went, naming the White House hierarchy. He called the President "a liar and a faker." Farley was termed "Prime Minister James Aloysius, the Nabob of New York." Ickes got the title of "High Lord Chamberlain the Chinch Bug of Chicago." Secretary of Agriculture Wallace was dubbed the "Honorable Lord Destroyer of Crops, the Ignoramus of Iowa." And General Johnson, the NRA Chief, was ticketed as "the expired and lamented Royal Block, Hugh Sitting Bull."

"One sure way to avoid Huey P. Long for President," the Kingfish warned Roosevelt, "is to adopt God's laws. . . . Do as God commanded and I will be as little as one of the sands of the sea." (Aquinas via Baton Rouge.) And then again: "I'm as big as Roosevelt right now. Why he's copying my share-the-wealth speeches now, the ones I was writing when I was fourteen years old."

When asked "Will we ever have Fascism in the United States," Long replied: "Sure we'll have Fascism, but we'll call it anti-Fascism."

In 1934 Huey turned his share-the-wealth slogan into a nation-wide club with no dues, and soon was claiming 3,000,000 members. His Utopian plan promised that "every family would be furnished by the government with a homestead allowance of not less than one-third the average family wealth of the country, which means that every family shall have the comforts of life up to a value of from \$5,000 to \$6,000." But when the Kingfish tried to explain just how this was to be accomplished, he was something less than lucid. Apparently, holders of various possessions—cash, houses, automobiles, and stock certificates—would simply turn them over to the Government, whereupon members of Huey's Every-Man-a-King Club would file petitions setting forth their needs and

would promptly be furnished with whatever they required. Carleton Beals called the whole scheme "the weird dream of a plantation dorky."

Long's popularity with the underprivileged elements of American society is understandable: he simply promised them something for nothing, and thus fitted in perfectly with the prevailing El Dorado concept of American life. The fact that he planned to dispense with the two-party system, then supplant it with his own political party, a Fascist setup with the Kingfish as dictator, alarmed his followers not at all. It did, however, greatly alarm the more thoughtful members of society, who saw in Long's program merely an extension of his ruthless megalomania. Such persons were not altogether unhappy when, on September 8, 1935, Huey Long was fatally wounded by a young physician, Carl A. Weiss, Jr., whose father had been deeply wronged by the Long machine. The body of the tyrannicide Weiss was immediately riddled by sixty-one bullets from the guns of Huey's henchmen. Long expired a few days later, widely unmourned.

Another defector from the New Deal ranks was the Reverend Charles E. Coughlin, the "Radio Priest" whose inflammatory exhortations over the air waves were a strange perversion of the papal encyclicals of Leo XIII, plus a Fascism of Coughlin's own brand. This ecclesiastical demagogue was antilabor, antidemocratic, anti-Semitic, and anti-rational. Coughlin came to the diocese of St. Agnes Church in Detroit in 1923. Three years later Bishop Gallagher of Detroit selected the young priest to expand the Royal Oak parish. At first he broadcast sermons over WJR; later he gave afternoon talks to children. For four years his homilies roused no undue attention; then about 1930 he realized that through the Holy Ghost, or otherwise, the gift of tongues was upon him. In response to a new leavening of politics and economics in his sermons, letters started to pour in. At once he spread himself, formed the Radio League of the Little Flower, grew to national stature overnight. His tone now became inflammatory as he poured forth an indiscriminate stream of abuse against bankers, mass production, Morgan, Jews, Russia, and gold. Money came in from millions of listeners, enabling him to create his own radio network, which eventually included twenty-six stations stretching from Maine to Colorado. Soon he became a power in Washington and an accredited spokesman of the New Deal.

But by the end of 1933 Coughlin had left the New Deal far behind. With impassioned vehemence, he claimed that the New Deal was not

moving fast enough in its program of taxation, nationalization of banks, abolition of tax-free bonds, and the protection of the little man. To hasten the millennium, Coughlin formed the National League for Social Justice, describing it as "a lobby of citizens on a national scale." It turned out to be a new political party, organized in detail by local cells and Congressional districts. Soon Coughlin was predicting the end of the two major parties in America and the arrival of a Fascist state based on the Coughlin model.

Meanwhile, the Radio Priest's financial manipulations were becoming a matter of public interest. An audit of his operations revealed some embarrassing facts. These included: (1) the creation of a corporation called the Social Justice Poor Society, designed to help the indigent, but actually used as a holding company for a private publishing firm. (2) When the Government published the list of holders of silver, the largest in Michigan proved to be the young woman who was secretary of Father Coughlin's organization. She held 500,000 ounces, at the very time when Father Coughlin was crying over the radio: "The restoration of silver to its proper value is of Christian concern. I send to you a call for the mobilization of all Christianity against the god of gold." To many it seemed that the Radio Priest was using his microphone pulpit to boost the price of silver, from which profit would accrue to his undertakings.

Prominent Catholics opposed Coughlin. Al Smith called him a "crackpot" and Cardinal O'Connell denounced him as a false representative of the views of the Catholic Church. But Coughlin flourished, carrying on business from his old stand at the Shrine of the Little Flower. This magnificent edifice was constructed with dramatic theatricism. At night great spotlights, arranged with the skill of a Nazi party organizer, played over the huge relief of the crucified Christ, who looked down from His cross upon the gasoline station called "Shrine Super Service" and the hot-dog stand, the "Shrine Inn."

Of all juvenile plans proposing to make men equal before Mammon, none was so infantile as the scheme brought forward by Dr. Francis E. Townsend. So fair was the illusion created by his project that 25,000,000 people signed their names to the petition begging Congress to enact the Townsend Plan into durable law. In mid-1934, six months after Townsend appeared on the political scene, 3,000 Townsend Clubs were formed. A Townsend national weekly was circulating, and Townsend buttons, stickers, and automobile plates were

sported by 8,000,000 people old enough to know better.

Townsend, a retired physician of Long Beach, California, was undoubtedly honest, unselfish, and motivated by the highest principles. Righteous indignation started him on his crusade. One day in 1933, gazing from the window of his home, he saw three old women foraging for their dinner in a garbage can. For a moment his body was twisted with physical revulsion, then, straightening his tall frame, he burst into a torrent of profanity so vehement that his wife rushed into the room to see what was wrong. He emptied himself of anger, then in an after-period of quiet thought the Townsend Old Age Revolving Pension Plan (OARP) was born. The Townsend Plan proposed to end destitute old age and at the same stroke lift the country out of economic stagnation. How? By the simple process of giving everyone over sixty (8,000,000 people in all) \$200 a month—the only stipulation being that the money be spent within thirty days. The plan was a shining turret of the

great American cloud castle, and old folks crowded forward clamoring for immediate and permanent possession.

Townsend first proposed raising the money by a 15 per cent sales tax, but later calmly changed this to a 2 per cent tax on all business transactions. His simple belief was that if \$2,000,000,000 were forced into the American economy every thirty days, the consuming power thus created would start the wheels of production turning, put the unemployed back to work. This process, he averred, could be kept up forever. Kathleen Norris, after diligent study, hailed OARP as "audacious, original, inspired," but cooler-blooded John T. Flynn pointed out that the purchaser of an ordinary overcoat might have to pay \$250 for his garment, to absorb the accumulated taxes beginning with the sheep-raiser and ending in the clothing store. The OARP flared up vigorously in the 1936 campaign, then joined the corpses strewn along the board depression highway, already littered with the debris of a thousand economic panaceas. . . .

## INCOME, WAGES, AND PRODUCTIVITY

AS THE KNOWLEDGE and use of statistics became more scientific, Americans in the 1930s came to learn much more about the economy they were living in and something of the road along which real progress in the future had to move. Notably, studies of income, wages, and productivity were being made; and some of the results of these investigations are presented here. They should be compared with analyses that have been reprinted in earlier sections of this book.

S.S. Kuznets (1901- ) in his *National Income and Its Composition* (New York, 1941) presented the course of the American economy from 1919 to 1938 and there showed the great development in the "net value of the services individuals and their property contribute to the production of economic goods" up to 1929 and the losses suffered during the nineteen thirties. A brief statistical summary of his results will help explain Kuznets's conclusions.

Years	National Income (Billions of current dollars)	National Income (Billions of 1929 dollars)
1919	64.2	57.0
1929	87.2	87.1
1932	42.9	55.6
1938	65.5	78.0

Kuznets then points out:

"The decline from 1919-29 to 1929-38 in the totals in current prices is due exclusively to the downward tilt of the price levels. When adjusted for price changes, the income totals rise from the first to the second decade." However: "Population, the number of persons gainfully occupied and of consuming units grew from the first to the second decade at a rate appreciably greater than national income (in 1929 prices); the number of equivalent full-time units employed declined slightly. As a result, national income per consuming unit declined over the period; national income per unit employed grew."

Thanks to the work of Paul H. Douglas (1892- ) in his *Real Wages in the United States* (Boston, 1930), Americans were learning to what extent real wages, notably in the nineteen twenties, had risen. Examining, first, average hourly earnings for all industry, Douglas showed:

1. That the increase was from \$.211 in 1890 to \$.712 in 1926; or three and a third times what they had been during the nineties. In 1926, the average was two and a quarter times the 1914 average.

2. The real earnings during 1900 to 1914 were above the level of the nineties, being approximately 6 percent more. (Thus, Douglas challenges King's earlier estimate.) In 1917, despite wartime inflation, the index still remained above the average of the nineties by 3 percent, in 1918, by 5 percent and in 1919 by 7 percent. By 1923, relative real earnings stood at 132 and in 1926 at 138. That is to say, in 1926 there was a gain over the nineties in the purchasing power of an hour's work of 38 percent, which was also equivalent to an advance of 30 percent over 1914.

Douglas also sought to estimate average annual money earnings and real earnings for all industries excluding farm labor. Some selected years are here presented:

Year	Average Earnings in Dollars	Real Earnings (1890-99 = 100)
1890	486	98
1897	474	99
1900	503	99
1914	673	101
1920	1,459	106
1921	1,320	111
1922	1,291	117
1923	1,379	123
1924	1,375	122
1925	1,409	122
1926	1,444	125

Douglas examined the productivity of labor in manufacturing and came to conclusions later

confirmed by Spurgeon Bell in one of the selections reprinted in this section. Douglas showed that between 1899 and 1915, the output per man hour in manufacturing increased from 100 to 132, or at the rate of about 2 percent each year. There was no significant increase during the war years (unlike the extraordinary experiences of 1940-45); but in the nineteen twenties productivity once more rose steeply—from 132 in 1922 to 177 in 1925. However—and this is the point—the productivity of labor in the nineteen twenties increased more sharply than the real wages. When the whole period is examined, nevertheless, Douglas comes to the conclusion that labor's share of the value product of industry increased from 1899 to 1921, and while it decreased from 1922 to 1925, it was in 1925 still above the average of 1899.

This was very real progress since the nineties—but there were still many zones to be conquered in the economic fight against inequality and scarcity. The three selections here reprinted throw further light, in statistical terms, on the problems confronting the American economy during the depression and in the future.

The first is reprinted from *Consumer Incomes, 1935-1936*, a study made by the National Resources Committee, a government agency. Using WPA workers, Washington bureaus surveyed the income and spending habits of over 300,000 families in the United States and by this sampling device came to important conclusions. The study found that there were 29.4 million families in the country of whom 65 percent received less than \$1,500 annually, while 1 percent received \$10,000 or more. There was concentration, too. Three percent of the families received annual incomes of \$5,000 or more, but they also got 23 percent of the nation's total income distributed by families. Thus, a large part of the country's families did not receive an income capable of satisfying modest standards of living.

Spurgeon Bell (1880- ) in his *Productivity, Wages, and National Income* (Washington, 1940) throws further light on the shares capital and labor received from the creation of the national product. And he indicates that during the nineteen thirties the productivity of labor did not advance as rapidly as it had during the preceding decade, while real wages rose.

The third selection is from *The Conditions of Economic Progress* (London, 1940) by Colin Clark (1905- ), the Australian statistician. Clark compares the well-being of the American worker with the state of other workers throughout the world in terms of the purchasing power of the American dollar during

the period 1925-34. The position of the American worker was vastly superior to those of the others, although, historically, as all countries moved from primary production to higher forms there took place economic progress and improvements in real wages. Nevertheless, the world is still a poor place; "for the greater part of the world, and indeed ultimately for the wealthier countries, too, the most important problem remains the problem of increasing productive capacity."

The Bell selection is reprinted by permission of The Brookings Institution; the Clark selection by permission of The Macmillan Company.

### *Consumer Incomes in the United States*

BY THE NATIONAL RESOURCES COMMITTEE

THE GREAT MAJORITY of the Nation's consumers are members of families of two or more persons, sharing a common income and living under a common roof. The 29,400,300 families in the population during 1935-36 were by far the most important group of income-spending units, including nearly 91 percent of the total body of consumers.

The distribution of these 29 million families by income level indicates that 14 percent of all families received less than \$500 during the year studied; 42 percent received less than \$1,000, 65 percent less than \$1,500, and 87 percent less than \$2,500. Above the \$2,500 level, there were about 10 percent with incomes up to \$5,000, about 2 percent receiving between \$5,000 and \$10,000, and only 1 percent with incomes of \$10,000 or more.

When the incomes of all families are added together the aggregate is approximately \$48 billion. We find that the 42 percent of families with incomes under \$1,000 received less than 16 percent of the aggregate, while the 3 percent with incomes of \$5,000 and over received 21 percent of the total. The incomes of the top 1 percent accounted for a little over 13 percent of the aggregate.

*Incomes of Single Individuals.* In addition to the 116 million consumers living in family groups in 1935-36, there were 10 million men and women lodging in rooming houses and hotels, living as lodgers or servants in private homes, or maintaining independent living quarters as one-person families. These single individuals constituted nearly 8 percent of the total population, and—as

indicated in table 1—received 19 percent of the total consumer income.

The distribution of income among these individual consumer units resembles very closely that for families, except that there was considerably greater concentration in the lower brackets. Sixty-one percent received incomes of less than \$1,000 and accounted for 29 percent of the total income of the group. Ninety-five percent received less than \$2,500 and a little over 1 percent received \$5,000 or more.

*Incomes of All Consumers.* For a comprehensive picture of the distribution of consumer income in the United States, families and single individuals can be considered together. Such treatment is justified by the lack of a sharp distinction between the two groups from the standpoint of the receipt and use of income. The diversity among the consumer units that make up the 29 million families is fully as great as that between families as a group and single individuals. An income of \$1,000 a year means, to be sure, one thing to a single man or woman and another to an average family of four. But it also has quite different meanings to the family of two persons and to the family of eight. These two major groups of consumer units can therefore be combined, at each income level, to show the curve of income distribution for the Nation as a whole. . . .

The income distribution of all families and single individuals combined is presented in detail in table. The figures show both the number of consumer units at each level of income and the

share of the aggregate income they received. The results tell a story very similar to that already described for each group of consumer units separately. Nearly one third (32 percent) of the total number of families and single individuals had incomes under \$750, nearly one half (47 percent) received less than \$1,000, and more than two thirds

(69 percent) received less than \$1,500. At the other end of the income scale, about 2 percent had incomes of \$5,000 and over, and less than 1 percent incomes of \$10,000 and over. . . .

*The Three Thirds of the Nation.* This summary of the distribution of national income has revealed that almost one third of all families and single in-

TABLE I

DISTRIBUTION OF FAMILIES AND SINGLE INDIVIDUALS AND OF AGGREGATE INCOME RECEIVED, BY INCOME LEVEL, 1935-36

Income level	Families and single individuals			Aggregate income		
	Number	Per- cent at each level	Cumu- lative per- cent	Amount (in thou- sands)	Per- cent at each level	Cumu- lative per- cent
Under \$250 .....	2,123,534	5.38	5.38	\$294,138	0.50	0.50
\$250-\$500 .....	4,587,377	11.63	17.01	1,767,363	2.98	3.48
\$500-\$750 .....	5,771,960	14.63	31.64	3,615,653	6.10	9.58
\$750-\$1,000 .....	5,876,078	14.90	46.54	5,129,506	8.65	18.23
\$1,000-\$1,250 .....	4,990,995	12.65	59.19	5,589,111	9.42	27.65
\$1,250-\$1,500 .....	3,743,428	9.49	68.68	5,109,112	8.62	36.27
\$1,500-\$1,750 .....	2,889,904	7.32	76.00	4,660,793	7.87	44.14
\$1,750-\$2,000 .....	2,206,022	5.82	81.82	4,214,203	7.11	51.25
\$2,000-\$2,250 .....	1,704,535	4.32	86.14	3,602,861	6.08	57.33
\$2,250-\$2,500 .....	1,254,076	3.18	89.32	2,968,932	5.01	62.34
\$2,500-\$3,000 .....	1,475,474	3.74	93.06	4,004,774	6.76	69.10
\$3,000-\$3,500 .....	851,919	2.16	95.22	2,735,487	4.62	73.72
\$3,500-\$4,000 .....	502,159	1.27	96.49	1,863,384	3.14	76.86
\$4,000-\$4,500 .....	286,053	.72	97.21	1,202,826	2.03	78.89
\$4,500-\$5,000 .....	178,138	.45	97.66	841,766	1.42	80.31
\$5,000-\$7,500 .....	380,266	.96	98.62	2,244,406	3.79	84.10
\$7,500-\$10,000 .....	215,642	.55	99.17	1,847,820	3.12	87.22
\$10,000-\$15,000 .....	152,682	.39	99.56	1,746,925	2.95	90.17
\$15,000-\$20,000 .....	67,923	.17	99.73	1,174,574	1.98	92.15
\$20,000-\$25,000 .....	39,825	.10	99.83	889,114	1.50	93.65
\$25,000-\$30,000 .....	25,583	.06	99.89	720,268	1.22	94.87
\$30,000-\$40,000 .....	17,959	.05	99.94	641,272	1.08	95.95
\$40,000-\$50,000 .....	8,340	.02	99.96	390,311	.66	96.61
\$50,000-\$100,000 .....	13,041	.03	99.99	908,485	1.53	98.14
\$100,000-\$250,000 .....	4,144	.01	100.00	539,006	.91	99.05
\$250,000-\$500,000 .....	916	( <sup>1</sup> )	.....	264,498	.45	99.50
\$500,000-\$1,000,000 .....	240	( <sup>1</sup> )	.....	134,803	.23	99.73
\$1,000,000 and over .....	87	( <sup>1</sup> )	.....	157,237	.27	100.00
All levels .....	39,458,300	100.00	.....	\$59,258,628	100.00	.....

<sup>1</sup> Less than 0.005 percent.

dividuals in the country had incomes of less than \$750 during the year 1935-36. This finding is provocative of many questions. Where did these people live? What were their occupations? How many of them were dependent on relief at some time during the year? How did they compare with the other two thirds of the Nation? . . .

*The Lower Third.* When all consumer units are grouped into exact thirds, we find that the lower third received incomes of less than \$780 during 1935-36. These 13 million families and single individuals are not a distinct and unusual group; they include all types of consumer units, living in all types of community, and belonging to all of the major occupational classifications. They differ from the other two thirds of the Nation principally in the larger proportion receiving relief at some time during the year, in the larger number living on farms, and in the small number found in professional, business, and clerical occupations.

Although almost 4 million families and single individuals in this lower third were dependent on relief for at least part of the year, fully 70 percent of the total number—that is, a little over 9 million—received no assistance of any kind from a relief agency. About 1,700,000 of this nonrelief group were independent single men living alone or as lodgers; almost the same number—1,600,000—were single women; and 5,900,000 were families of 2 or more persons.

Somewhat more than half of these nonrelief families lived on farms or in rural communities of less than 2,500 population, and about one sixth—just 1 million—lived in cities of 100,000 population or more. According to occupation, these families were almost equally divided between wage earners and farmers, with only one fifth—1,200,000 in all—in other occupational groups.

The share of the aggregate income received by this lower third of the Nation was just over 10 percent of the total \$59 billion. The average income of the group—that is, the mean income of the 13 million consumer units—was \$471.

*The Middle Third.* The middle third of the Nation included the 13 million families and single individuals receiving from \$780 to \$1,450 during the year. Only 13 percent of these consumer units, or about 1,700,000, were dependent on relief at some time during the year. In the nonrelief group there were more single men and fewer single women than in the lower third, twice as many families living in large cities and metropolises, and more than twice as many families in the clerical, business, and professional groups.

The total income received by all consumer units

in this "middle class" amounted to 24 percent of the aggregate income. The average (mean) income per consumer unit was \$1,076.

*The Upper Third.* The upper 13 million consumer units covered a wide range of incomes, extending from \$1,450 to over a million dollars. The great majority of this upper third—over 80 percent—were nonrelief families. Only a small number of families that received work relief or direct relief at some time during the year had incomes that brought them over the \$1,450 line, when earnings from regular employment and income from all other sources were added together. No single individuals who received any relief had incomes sufficient to bring them into this group. The number of nonrelief single individuals was smaller than in the middle and lower thirds. This was particularly true of single women; only one-sixth of the total number of nonrelief single women were in the upper third, while more than half were in the lower third. . . .

The contrast between the incomes of farm and city dwellers is striking. Of the whole group of 7,500,000 nonrelief families living in large cities and metropolises, more than 4,000,000—that is, 58 percent—are found in the upper third. Only 27 percent of the 6,200,000 nonrelief farm families, however, had incomes as high as \$1,450. The incomes of the various occupational groups are similarly contrasted. Almost 80 percent of the nonrelief families in the professional group are found in the upper third, and 63 percent of the business and the clerical groups, as compared with 35 percent of wage-earning families and 27 percent of farm families. . . .

The total income received by all of the 13 million consumer units in this top third of the Nation was \$39 billion—about 66 percent of the aggregate income of all families and single individuals. The average (mean) income of the group as a whole was thus just under \$3,000. This average, however, covers such widely divergent incomes that it has little meaning. Most of the families in the nonrelief wage-earner group were concentrated toward the lower end of the income range, with the average for the group amounting to about \$2,100. For the clerical group of nonrelief families the average was about \$2,500, and for the farm group, about \$2,600—still well under the average for the whole third. Families in business and professional groups, on the other hand, were scattered through the full range of the income scale, and the high incomes of those at the top brought the average of the first group to more than \$4,400, and that for the second group to nearly \$5,000. . . .

*Productivity, Wages, and National Income*

BY SPURGEON BELL

THE INCOME of a nation is derived from the productive activities of its people. The amount of goods and services produced depends upon a combination of factors, including the richness of natural resources, the efficiency of labor, the resourcefulness and skill of management, and the amount and quality of capital—that is, productive plant and equipment. The more effectively these several factors of production work together, the larger will be the resulting output of goods and services.

The factor which has been most largely responsible for the enormous increase in production in the last hundred years or so has been the continuous expansion of increasingly efficient capital instruments. Scientific discoveries and inventions have resulted in the development of machinery for use in nearly every field of production. Working with machinery, labor is able to turn out a greater volume of goods in a given time. The efficiency of labor may also be increased by improved factory organization or by harder and more effective work on the part of individual laborers.

Increases in labor efficiency are commonly measured by the output per man during a specific time period such as an hour. Accordingly, in showing changes in labor efficiency such terms as "output per man-hour," or "man-hour productivity," are employed. If, for example, 1,000 men in 1920 could produce 1,000 units of a given commodity in an hour, while 20 years later 1,000 men were able to produce 1,500 units in an hour, we would say that man-hour productivity had increased 50 per cent.

The investigation on which this pamphlet was based had two primary purposes: first, to determine the extent to which man-hour productivity has increased in the last 20 years; and, second, to ascertain how the resulting gains have been divided among labor, capital, and the general public. An increase in man-hour productivity means, of course, that the amount of human energy required in turning out a given volume of product has declined. Unless the resulting saving in labor is offset by the use of a larger amount of capital, there is obviously a net reduction in the cost of production. Who received the benefit from this increasing productivity and reduction of cost? Did it go to the stockholders of the company in the form of higher dividends? Did it go to labor in the form of higher wages? Did the

public which buys the product obtain the benefit in the form of more goods for its dollar?

The investigation also gives attention to the relation of increasing man-hour productivity to employment. Are the workers who are replaced by machinery in a given industry shortly reabsorbed in new jobs in that industry? Or does technological progress appear to be primarily responsible for the prevailing unemployment? How is employment affected by the way in which productivity gains are distributed? The analysis as a whole is thus related to the fundamental problem of the bearing of income distribution upon the functioning of the economic system.

## I. PRODUCTIVITY, OUTPUT, EMPLOYMENT, AND WAGES

Because of the lack of satisfactory data in certain fields, the analysis is confined to four major divisions of American industry: manufacturing, mining, railroads, and electric light and power utilities. Taken together, these four divisions account for approximately 75 per cent of the industrial wage disbursements in the United States. We shall first examine the extent of the productivity gains in each of the major industrial divisions and the accompanying changes in the volume of output, in employment, and in wages.

1. MANUFACTURING. During the last two decades improved capital equipment and more efficient industrial organization have resulted in a great increase in productivity in manufacturing industry generally. The extent of the increase and the accompanying changes in the volume of output, in employment, and in wage earnings are indicated in the table which follows. We are interested not

PERCENTAGE CHANGES IN MANUFACTURING

	1923-24 to 1928-29	1928-29 to 1936-37	Entire Period
Productivity .....	+25	+20	+50
Physical volume of output .....	+27	-1.4	+25
Man-hours of employment .....	+1.8	-18	-16
Number of wage earners	+2.8	+0.8	+3.5
Hourly earnings .....	+6	+7	+13
Weekly earnings .....	+4.7	-13	-9
Weekly earnings—real .	+5	+0.9	+6



only in the general trend over the period as a whole but also in variations occurring in a period of great prosperity, such as the twenties, and a period of depression and moderate recovery, such as the thirties. Since the data for any one year may be distorted by abnormal or temporary conditions, we have used in the computations three sets of years—1923-24, 1928-29, and 1936-37. While the figures are given in precise terms, it should be understood that the data are such as to yield only fair approximations.

*Productivity.* During the five-year period 1923-24 to 1928-29, productivity, or output per man-hour, increased 25 per cent. In the ensuing eight-year period to 1936-37, the increase amounted to 20 per cent. Over the entire period the percentage increase, as measured from the 1923-24 base, was approximately 50 per cent.

The rate of technical progress was less rapid in the thirties than in the twenties. This finding is not in accord with the common assumption that the introduction of labor-saving equipment has been a special characteristic of the depression period. Moreover, the increase in productivity during the thirties was apparently due in part to the lay-off of less efficient workers and to pressures which are always present when jobs are highly prized. It is not improbable, therefore, that with a return of very active business, the output per man-hour would show an appreciable decline. This conclusion is borne out by the fact that there was a material decrease in productivity during the expansion months of 1936-37.

*Output.* What changes occurred with respect to the volume of production? With an increase in productivity it is obvious that a *proportionate* increase in output is possible. In the twenties, as indicated by the table, the actual volume of output increased more than productivity. In the thirties, however, the physical volume of output declined 1.4 per cent, while productivity was increasing 20 per cent.

*Employment.* What were the effects of these changes in productivity and volume of output upon employment? In the twenties, when output increased in proportion to productivity, employment was fully maintained. In fact, the figures show a slight increase both in the number of wage earners and in the man-hours of employment. But the failure of output to keep pace with productivity during the thirties meant that employment declined. The figures indicate a decline in *man-hours* of employment of 16 per cent for the entire period. It is to be noted, however, that the *number of workers* increased slightly—the reduction in

man-hours of employment being the result of a decline in the weekly hours of work rather than in the number of men employed.

*Wages.* Hourly earnings, or wage rates, increased approximately 6 per cent during the prosperity period of the twenties. Between 1928-29 and 1936-37, notwithstanding a sharp decline during the years of acute depression, there was an increase of 7 per cent in wage rates. These trends, it will be noted, are the reverse of the changes which were occurring in productivity. Hourly earnings, however, tell only a part of the wage story.

*Weekly earnings* increased in the twenties nearly as much as hourly earnings, but in the thirties weekly earnings showed a substantial decline, while hourly earnings were rising. The differences between the movements of hourly earnings and weekly earnings reflect changes in the number of hours worked per week by employees regularly attached to the industry. The sharp decline in weekly earnings during the thirties is due chiefly to the shortening of the standard working week, with irregular hours of work a contributing factor.

Data showing average annual wages per employee are too inadequate to permit the use of definite figures. It is known, however, that annual wages declined during the thirties more than weekly wages—because of periods of lay-off during the years for some workers and complete unemployment for others.

*Real wages* made an appreciably better showing than money wages. The term "real wages" relates of course to the buying power of money wages. Over the period as a whole, the *cost of living*—that is, the cost of goods and services which the worker buys—declined approximately 14 per cent, practically all of the reduction coming after 1929. As a result of the decrease in prices, there was an increase in *real* weekly earnings over the period as a whole of approximately 6 per cent, even though money wages declined 9 per cent. . . .

*SUMMARY.* We have thus found that there was a large increase in productivity in each of the four major industrial divisions during the period studied. The greatest increase was in electric light and power, with mining a fairly close second. The increase of efficiency in railroads—a declining industry—was practically as great as in the expanding manufacturing industry. Except in the electric light and power industry, the rate of increase was less rapid in the thirties than in the prosperity period of the twenties.

Over the period as a whole, production in general did not increase as much as productivity, and,

consequently, employment declined. There is a striking difference between the showings in the twenties and the thirties. In the twenties, when business was prosperous and output keeping pace with productivity there was, in general, no decrease in employment. During the thirties, however, output generally declined and, since productivity continued to increase, employment showed a great decrease.

The explanation of the decline in employment after 1929 is of course to be found in the general factors which account for the depression and the continuing restriction of the volume of output. Increasing productivity makes possible increasing output, the maintenance of employment, and higher standards of living; but whether these results will be realized depends upon a combination of favorable factors in the economic and political situation as a whole.

## II. DIVISION OF THE GAINS

Thus far we have indicated the magnitude of the increase in productivity and the accompanying changes in the volume of production in employment and in wages. The next step in the analysis is to indicate how the gains, or savings, resulting from the increase in efficiency and lowered costs of production were divided. When costs were reduced, did the owners receive all of the benefits in the form of higher dividends, or did labor succeed in diverting savings to the wage envelope? Or, perchance, were they passed on to the consuming public in the form of lower prices? The facts indicate that the three groups shared in the gain in varying degrees in the different industries.

1. GAINS TO LABOR. Labor on the whole did not gain in the way of higher wages. While wage earners obtained progressively higher hourly rates of pay, weekly wages in the four industrial divisions combined declined—in consequence of the progressive shortening of the work week. Hourly earnings increased over the period by 11 per cent, ranging from 1.7 per cent in mining to 30 in electric light and power. Weekly wages as a whole decreased 10 per cent, though in railroads and electric light and power they increased.

It is apparent that a substantial part of the gains was expected to accrue directly to the benefit of labor. But the man-hours of employment declined so much that labor as a whole received less money than before. In some cases the workers actually employed received larger earnings, but in other cases even these relatively fortunate workers received less because of the shortening of the work week to make room for more workers. In such

cases, labor's gains from productivity were merely in the form of leisure.

If these gains in leisure be reckoned in dollars at the hourly rates paid in the various industries, the *imputed* gains would amount to 1,086 millions in manufacturing, 150 millions in railroads, and 50 millions in the electric light and power industry. It is impossible to make such a calculation for mining, because of inadequate data.

2. GAINS TO CAPITAL. The earnings on capital investment declined over the period as a whole. The amount of annual return on the *total capital* invested in manufacturing, railroads, and electric light and power industries *combined* declined 392 million dollars, representing a decrease of 7.7 per cent. The rate of return on capital (including interest, rent, dividends, and undistributed profits) decreased from approximately 6.4 per cent in 1923-24 to about 5.6 per cent in 1936-37. This decline is of course not attributable to the increase in productivity. Without such an increase the decline might well have been much greater.

Aggregate earnings declined because output did not increase in line with the increase in productivity. Just as labor found the hope of obtaining higher wages frustrated by slack employment, so the return to capital declined because of the failure to utilize productive capacity fully.

3. GAINS TO CONSUMERS. Consumers realized very important gains in terms of real goods and services. As a result of price reductions, made possible by increased productivity, the consuming public got more goods for the same money. The figures which followed indicate how much less consumers paid annually for the various classes of goods at the end of the period than they would have had to pay had productivity remained at the 1923-24 level.

Consumer savings in connection with the purchase of manufactured commodities were at the rate of 5,055 million dollars annually. The gains accruing to the users of railroad service amounted to 556 millions. Users of electric current saved 463 millions. Data for the mineral field were too inadequate to warrant presenting a figure.

It should be borne in mind that wage and salaried employees and also contributors to capital shared in these gains in their capacity as consumers. It should also be pointed out here that the aggregate gains to consumers were even larger than is shown by the foregoing figures because in many cases the quality of the commodity or service was improved.

In summary, it is apparent that the consuming public derived the principal benefit from the increase in productivity. The gain to capital was

negative in character: had it not been for the increase in productivity the decrease in the rate of return to capital would doubtless have been greater than it was. The money earnings of em-

ployed labor declined slightly: such gains as labor received were in the form of leisure. However, both labor and the contributors of capital shared in consumer benefits. . . .

## *The Conditions of Economic Progress*

BY COLIN CLARK

### SUMMARY AND CONCLUSIONS

ECONOMICS, in concerning itself only with those things which can be bought and sold for money, remains quite unmoved by the charge that it is neglecting the most important aspects of human life. Economics is a wide enough subject already without having to include the whole of philosophy, psychology, sociology and human biology in addition. Let economists get on with their work, and let the students of other social sciences get on with theirs.

When, therefore, we say that the average American enjoys greater economic welfare than the German, the German than the Italian, the Italian than the Indian, or present-day Europeans than their ancestors a century ago, we are perfectly well aware that the relative merits of these civilisations are not necessarily described by this economic ordering. A community making great economic progress may lack, and an economically unprogressive community may possess in full measure, the other values of life, such as a sense of contentment and of hope for the future.

Economic progress can be defined simply as an improvement in economic welfare. Economic welfare, following Pigou, can be defined in the first instance as an abundance of all these goods and services which are customarily exchanged for money. Leisure is an element in economic welfare, and more precisely we can define economic progress as the attaining of an increasing output of these goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial.

Two other elements have to be taken into account in assessing economic welfare. A productive system leading to great inequalities of income between one person and another, or to great instability of income, even if it produces a higher output of goods and services, should be regarded as creating less economic welfare than a system from which these features are absent. Unlike quantities of output, these two latter features cannot be measured or compared in uniform terms and qualitative judgment is necessary. They will be surveyed below.

Quantitative comparison can be made of the production of goods and services, or of what amounts to the same thing, namely real incomes produced per unit of labour, both between different times and different communities. Different communities, or people living in different times, consume different types of goods. Where these differences are very great, quantitative comparisons of real income become very approximate, but for moderate differences the formulae proposed by Professor Pigou make quantitative comparison possible. All such comparisons throughout this book are made in terms of what is defined as an "international unit" (referred to throughout as I.U.).

An international unit is defined as the amount of goods and services which could be purchased for \$1 in the U.S.A. over the average of the decade 1925-34, or an amount interchangeable with them, as shown by the Pigou formula. For international comparisons of real incomes, the incomes are reduced to a 48-hour week basis by a simple proportion between the current prevailing working hours and 48.

This method of measurement of real incomes in different countries does not claim any metaphysical finality. It represents indeed the measurement of only part of economic welfare, which in itself is only part of well-being as a whole. But within the sphere of economic goods and services it represents the most reasonable measurement which can be obtained.

We may summarise the data about the level of real income in different countries by expressing the average real income in each country per head of the working population. (The ratio of working population to total population varies widely, and in any case output per head of the working population is the true measure of economic efficiency.)

Summarising these figures, the world is found to be a wretchedly poor place. An average real income per worker of 500 I.U. or less (in round figures a standard of living below £2 or \$10 per week per breadwinner) is the lot of 81 per cent of the world's population. A standard of living of 1000 I.U. per worker per year or more is found only in U.S.A., Canada, Australia, New Zealand,

Argentina, Great Britain and Switzerland, containing between them 10 per cent of the world's population. Another 9 per cent of the world's population is found in the principal industrial countries of Europe with an average real income per head between 500 and 1000 I.U. About 53 per cent of the world's population, including the whole populations of India and China, enjoys a real income per head of less than 200 I.U. Average real income per bread-winner in China and India is about 120 and 200 I.U. respectively.

The figures so far quoted represent income produced in the actual prevailing working hours which, in many cases, were much greater than 48 per week.

Stated in another way, the entire world's production of economic goods and services, averaged over the decade 1925-34, was 254 milliard I.U. per year. As much as 119 milliard I.U. of this was produced in the four largest economic units (U.S.A., Great Britain, Germany and France), containing between them only 13 per cent of the world's population. The other countries which may be called industrial countries, including Russia and Japan, contained 16 per cent of the world's population and produced a further 49 milliard I.U. of income. Two-thirds of the world's whole output of economically valuable goods and services was therefore produced in the so-called industrial countries containing less than one-third of the world's population, and nearly half of the world's whole output in four countries.

Often-repeated phrases about poverty in the midst of plenty, and the problems of production having already been solved if only we understood the problems of distribution, turn out to be the most untruthful of all modern clichés. In the U.S.A. the highest level of real income per head of the working population so far attained was in 1929 with 1582 I.U. per head (on the basis of a 48-hour week). If all the industries of the U.S.A. had been working at full practical capacity (which would have involved extensive economic reorganisation), average income produced per head would have been 1905 I.U., and in 1937 about 2200 I.U. These figures are very modest compared with the fantastic statements sometimes made about the extent of unused productive capacity. Britain and Germany working at full productive capacity could have produced in 1937 approximately 1500 I.U. and 1000 I.U. per head respectively, while actually they produced 1275 and 828 I.U. per head respectively.

The under-utilisation of productive capacity is a question of considerable importance only in the U.S.A., though in certain recent years also it has

been of some importance in Great Britain, Germany and France, but for most of the world it is entirely subsidiary to the much more important fact that, with productive resources fully employed, they can produce so little. The age of plenty will still be a long while in coming.

The extent of non-utilisation of potential productive resources can be to some extent measured by figures of the proportion of the working population unemployed, bearing in mind that at a time when the economic system is working at full pressure there generally remain somewhere between 5 and 10 per cent unemployed due to occupational maldistribution. In the worst years of the last depression unemployment was over 30 per cent in Germany and the U.S.A., and in other industrial countries ranged from 9 to 22 per cent.

In 1937 it was 21 per cent in U.S.A. and about 24 per cent in France, and in other industrial countries ranged from 6 to 13 per cent. If preventable unemployment were eliminated throughout the trade cycle, this would mean a distinct improvement in the standard of living of the population of the U.S.A., but from the standpoint of the world as a whole it would only make a small contribution towards the much greater productive problem of raising the real incomes of the bulk of the world's population to anything like a civilised standard.

Very little attention has been devoted to ascertaining the causes of the tremendous differences in real income which prevail between different parts of the world. Conventional explanations in terms of natural resources are very wide of the mark. Our next step in attempting to get a grasp of this problem should be to examine the growth of real income in various countries over a long period of years, and the trends which have brought figures of real income to their present levels.

For this purpose, not only current levels of real income per head are expressed in international units, but the available information in each country about growth of real income per head is also re-expressed in terms of international units. Information in some cases is available as far back as 1850. Over long periods of time the figures naturally lose precision, but some striking general trends can be discerned.

One of the most striking features is that real income per head in the U.S.A. and Canada, which was rapidly rising up to about 1900, has since that date been virtually stationary. Between 1850 and 1900 the U.S.A. had much the highest real income per head in the world with a fairly marked upward trend. During the last few years their level of real income per head has been overtaken by New Zealand, where the upward trend is very

rapid, while in Great Britain progress, though it has slowed down since 1900, has continued, and Britain is now not far behind the U.S.A. Rapid progress since 1890 has also been shown by Switzerland and Australia.

In France economic progress appears to have been very rapid up to the beginning of the present century, to be followed by a period of complete stagnation. The German economy, for obvious reasons, showed a marked decline between 1913 and 1932, since which date there has been a rapid advance and the old upward trend has been resumed. The most rapid advance has been shown by Japan, which started the present century with a level about equal to that of China, and has risen very steeply to an average real income per head now about equivalent to that of Italy or Russia. Rapid and unbroken progress has also been shown by Sweden, in which country in the 1860's average real income per head was only about 150 I.U. Sweden has now overtaken all European countries except Britain and Switzerland. Norway also shows a rapid advance. Italy, also starting from a low level, has shown a moderately rapid advance between 1900 and 1928, followed by a recession. In Russia the upward trend has been exceedingly slow, and only in 1936 was the 1913 level of real income per head recovered.

Attention may first be devoted to the Malthusian or Neo-Malthusian theory that the trend of real income per head is inversely related to the rate of growth of population. Statistical examination leaves some fragments of this theory standing, but no more. The lowest rate of population increase over the period 1913 to 1930 was found in Czechoslovakia, France, Belgium and Austria. In Czechoslovakia there was a moderate increase in real income per head, while in the other three countries it was stationary or declining. At the same time in Canada, Norway, Sweden, Australia, Denmark and Japan substantial increases in the working population were accompanied by large increases in real income per head and reductions in working hours.

In predominantly agricultural countries something more like the Malthusian relationship holds. Large increases of population in Bulgaria, France, Finland and Russia have been accompanied by an unfavourable trend of real income, while the upward trend of real income in Yugoslavia is possibly explained by a low rate of population growth. It is possible, though not very likely, that the comparative stationariness of real income per head in Germany and Holland were partly accounted for by a high rate of growth of adult population over this period.

Generally speaking, it is established that in industrial countries, or countries which have an opportunity of transferring a substantial proportion of their working population away from primary production, the Malthusian theory does not hold and, indeed, that its reverse may be true. Unfortunately it is in the industrial countries, where an upward trend of population is advantageous, that fertility rates have fallen so heavily; while in the agricultural countries, where an increasing population is economically disadvantageous, fertility remains high. . . .

Studying economic progress in relation to the economic structure of different countries, we find a very firmly established generalisation that a high average level of real income per head is always associated with a high proportion of the working population engaged in tertiary industries. Primary industries are defined as agriculture, forestry and fishing; secondary industries as manufacturing, mining and building; the tertiary industries include commerce, transport, services and other economic activities. In the U.S.A., Canada, Great Britain, Australia and New Zealand, nearly half of the working population is engaged in tertiary industries; in other European industrial countries and the Argentine, between 33 and 40 per cent. Low real income per head is always associated with a low proportion of the working population engaged in tertiary production and a high percentage in primary production, culminating in China, where 75-80 per cent of the population are primary producers. High average real income per head compels a large proportion of producers to engage in tertiary production even in countries which are supposed to be predominantly agricultural (Australia, New Zealand and the Argentine), where, in fact, only about 25 per cent of the working population are found to be engaged in primary production. The reasons for this growth of the relative number of tertiary producers must largely be sought on the demand side. As incomes rise (it will be shown below) the demand for such services increases, and being non-transportable they must be supplied by workers within the country concerned.

When we examine the trend through time, we find a similar result. In every case we find the proportion engaged in primary industry declining and in tertiary industry increasing. The proportion of the working population engaged in secondary industry appears in every country to rise to a maximum and then to begin falling, apparently indicating that each country reaches a stage of maximum industrialisation beyond which industry begins to decline relative to tertiary pro-

duction. In the U.S.A. this maximum was shown in the Census of 1920, in Great Britain of 1901, in France of 1901, in Germany of 1925, in Canada of 1911, in Japan of 1920 and in Switzerland of 1910. In Australia, Italy and Denmark the maximum does not yet appear to have been reached.

Accompanying these industrial changes are substantial occupational and social changes, leading to a gradual elimination of the manual worker, particularly the unskilled, and the rapid growth of the numbers of clerical and professional workers. The decline of agriculture tends to reduce the relative number of employers and independent workers, though the growth of tertiary industry tends to restore their relative importance. These large-scale movements of labour between industries and occupations, which economic progress continually demands, are accompanied by substantial movements of relative earnings. Low relative earnings in an industry encourage labour to leave that industry though, on the other hand, they may encourage employers to use more of that type of labour, and no exact result is predictable. In the U.S.A. relative earnings of farm workers have been declining heavily; at the same time in the rapidly expanding clerical occupations there has also been a rapid decline in relative earnings over the last fifty years, and their average is now at or below that of factory workers. There is no doubt that the supply of such labour has been greatly augmented by wider educational facilities. The existence of these, together with natural preference for work of this type, might alone suffice to explain the fall in relative earnings. The wages of unskilled labour, relative to skilled, have been stationary, while there has been some relative upward trend in professional earnings, in spite of the greater availability of education previously mentioned. Presumably in this case the rapidly increasing demand is overtaking the supply.

In most countries the relative earnings of unskilled men increased relative to skilled between 1913 and 1920. Since 1920 the ratio has moved back, though in each case remains more favourable to the unskilled man than it was in 1913. This has been accompanied by serious occupational maldistribution in nearly all industrial countries, particularly the creation of an excess of unskilled workers. This is not altogether due, as might first appear, to the attraction of labour into unskilled work by the relative improvement of its wage rate. Professor Bowley's inquiries in England have shown that the probability of a boy entering unskilled labour is largely determined by his father's occupation, and the relative surplus of unskilled labour in all industrial countries can be accounted

for by the preservation of the old social structure in the face of a declining demand for unskilled labour.

The closing of the margin between unskilled and skilled labour on the one hand, and between manual and clerical work on the other hand, is part of a general tendency towards equalisation of earnings which seems to prevail throughout the world. Examining wage rates for a standardised list of skilled and unskilled occupations in different countries, we find a wide dispersion in the comparatively primitive countries, and a narrow dispersion in Western Europe, U.S.A. and Australia. Professor A. G. B. Fisher has pointed out that increasing opportunities for education will certainly narrow the dispersion of earnings in a community. . . .

Volume of production per unit of labour in primary industry has grown rapidly in all countries over the last sixty years, and generally as rapidly as in manufacturing industry. This is due partly to improvements in biological knowledge (particularly increased milk yield per cow) and partly to greater use of machinery. Gains from the use of machinery in agriculture are, however, often illusory, and in most countries of the world at present a further substitution of horses by machinery would not lead to any economic gain. Even in China, where return per unit of labour is now very low, machinery could only be economically introduced into the semi-arid land at present uncultivated.

In secondary industry, figures of net production per worker engaged can be roughly converted into international units for comparison. The highest productivities are found in America and Canada, and much lower productivity in Europe. But the range here is not nearly so great as it is in primary production.

A detailed computation of real output per worker-hour in manufacturing industry in the U.S.A. shows a three-and-a-half-fold increase between 1870 and 1937. In Great Britain real output per worker-hour was about doubled in the sixty years preceding 1907, and increased by over 50 per cent between 1907 and 1936. A somewhat slower rate of increase was observed in Germany. In France, where a census of manufactures was first taken in 1840-45, real output per worker appears to have increased sevenfold between that date and 1930. . . .

As half the working population of many countries is engaged in tertiary industry, the efficiency with which they do their work is a factor of prime importance in determining the average level of real income per head in those countries, and in-

deed it appears that the wealthier countries largely owe their position to high productivity per head in those industries. There is a wide range between different countries in this figure. This is borne out by an examination of the real costs of transport and retail distribution in different countries (services where direct international comparison is possible). In Great Britain, Germany and the U.S.A. there is evidence that the real productivity of these industries is improving, though at a much slower rate than in primary and secondary industry.

These figures of productivity per head in different types of industry can now be assembled and combined to show the general average level of real income per head in the principal countries, now and at earlier dates, of which they are the cause. Economic progress clearly can be made by

increasing production per head in the sphere of primary, secondary or tertiary industry; or by transferring labour from less to more productive spheres. In all countries both of these have been of importance. In the U.S.A. primary production has always yielded an income per head much lower than in secondary or tertiary industry, and the transfer of labour out of primary production has contributed substantially to increasing the general level of real income per head. In tertiary industry productivity has been high throughout and the growth of the numbers engaged in it from 17 per cent of the working population in 1850 to 46 per cent in 1935 has been a substantial factor in raising the average real income per head of the community. Since 1920 average real income per head in tertiary industry has been rising strongly. . . .

# AMERICAN PROBLEMS

## NRA AND AAA

ACCORDING TO New Deal economists, for whom Gardner C. Means (1896- ) was an early spokesman, one of the important reasons for the depression was the disappearance of the free market in many sectors of the American economy. The shift from "market to administered prices" had culminated in pressures which brought on governmental intervention. Means argued, in the selection here reprinted, that if there was to be administration of prices, more justice would be dispensed among all the producers if this function were performed by governmental agencies like the NRA and the AAA than by private business groups—whether great companies, monopolies, trade associations, communities of interest, and the like. We have here, then, the rationale of price control—one of the first devices of the New Deal created in an effort to restore prosperity and reform American business practices.

To prove his contention, Means quoted the price and production experiences of ten major industries in the United States from 1929 to the spring of 1933. In the first five, "administered prices" prevailed; in the second five, "market prices" ruled. Here are his figures:

<i>Industries</i>	<i>Percent Drop in Prices</i>	<i>Percent Drop in Production</i>
Agricultural imple- ments	6	80
Motor vehicles	16	80
Cement	18	65
Iron and steel	20	83
Auto tires	33	70
Textile products	45	30
Food products	49	14
Leather	50	20
Petroleum	56	20
Agricultural com- modities	63	6

And Means concluded: "One may make the broad generalization, having of course many exceptions, that for industries in which prices dropped most during the depression production tended to drop least, while for those in which prices were maintained the drop in production was usually greatest. Indeed, the whole depression might be described as a general dropping of prices at the flexible end of the price scale and a dropping of production at the rigid end with intermediate effects between."

Means's study was printed as *Industrial Prices and Their Relative Inflexibility* and was released as Senate Document No. 13, 74th Congress, 1st Session (Washington, 1935).

### *Industrial Prices and Their Relative Inflexibility*

BY GARDNER C. MEANS

#### PART I. THE BASIC CAUSE FOR THE FAILURE OF A Laissez Faire Policy

1. The National Recovery Administration and Agricultural Adjustment Administration were created in response to an overwhelming demand from many quarters that certain elements in the making of industrial policy (including agriculture

as an industry) should no longer be left to the market place and the price mechanism but should be placed in the hands of administrative bodies—code authorities, crop control committees, etc. This demand is not only a product of emergency conditions, but is also a reflection of more basic dissatisfactions with the results of laissez faire, such as are reflected in the demands for weakening



the antitrust laws, strengthening labor organization, intervening to aid the farmers, and for such economic reorganization as will bring the higher standard of living made possible by modern technology.

2. The whole trend of social development both in this country and abroad has been to recognize the failure of a complete *laissez faire* policy.

3. The basic cause for the failure of a *laissez faire* policy is to be found in the very same forces which have made possible a high standard of living for all, namely, the gradual, century-long shift from market to administrative coordination of economic activity which has resulted in modern industrial organization and modern technology. This shift to administration has brought a new type of competition and inflexible administered prices which disrupt the workings of the market.

4. A century ago the great bulk of economic activity in the United States was conducted on an atomistic basis by individuals or families—as is most of agriculture today—while the actions of the separate individuals were coordinated by the market. The individual produced for sale and his activity was geared to and in part controlled by flexible market prices. Balance between the actions of individuals was maintained—insofar as it was maintained—by the impersonal forces of the market and the law of supply and demand. Through the market, the apparently unrelated activities of individuals were thus made to mesh into a single coordinated whole and industrial policy was made by the market as a result. The policy of *laissez faire* has rested on the assumption that the market would continue to make industrial policy and would remain a satisfactory coordinating mechanism.

5. But gradually more and more of economic coordination has been accomplished administratively. Great numbers of individuals have been drawn into large factories or business organizations and their activities have come to be coordinated within the separate enterprises by administrative action. In a single factory the separate activities of thousands of workers are coordinated by the factory management so as to mesh into a single producing organization. Within single corporate enterprises, tens and even hundreds of thousands of individuals have their economic activity coordinated by administrative direction. In 1929 the activity of over 400,000 workers was meshed into a great communication system by the management of the American Telephone & Telegraph Co. Contrast the coordination and balance among this group of workers with that among 400,000 separate farmers whose action in producing more or less of each product is controlled and balanced

only by the market. In the first, we have the extreme of administrative coordination; in the second, the extreme of market coordination.

6. The shift from market to administrative coordination has gone so far that a major part of American economic activity is now carried on by great administrative units—our great corporations. More than half of all manufacturing activity is carried on by 200 big corporations while big corporations dominate the railroad and public-utility fields and play an important role in the fields of construction and distribution.

7. This development of administrative coordination has made possible tremendous increases in the efficiency of industrial production within single enterprises. The large number of workers brought into a single organization has allowed a high degree of subdivision of labor and the use of complicated series of machines so that the volume of production has been expanded way beyond the capacity of the same number of workers operating independently. Organization has made for rapid and extensive development of technology and the improving technology in turn has increased the advantages of administrative coordination. The telephone, the automobile, modern plumbing, are the joint product of technology and administration. The possibility of a high standard of living for all rests on these two interrelated factors.

8. But the very concentration of economic activity which brought increased productivity has by its nature destroyed the free market and disrupted the operations of the law of supply and demand in a great many industries and for the economy as a whole.

9. Evidence of this disruption is to be found in the administrative character and relative inflexibility of price in a great many industries and the fact that on the whole prices during the depression have tended to go down least where the drop in demand has been greatest.

10. The failure of prices to adjust is perfectly familiar to business men in nearly every industry. But the implications of this familiar fact for the economy as a whole have not been recognized.

11. In a large part of industry, the market is not equating supply and demand through a flexible price mechanism, but is bringing an adjustment of production to demand at administratively determined prices. Thus, General Motors may set the f.o.b. price of a 1934 Chevrolet at \$500 and produce the half million cars demanded at that price, yet be willing and eager to produce and sell a million cars at that price if only there were buyers.

12. The presence of administered prices, while

it does not indicate monopoly, does mean that the number of concerns competing in the market has been reduced to the point that the individual concern has a significant power to choose within limits between changing its prices and changing its volume of production or sales. When any small drop in demand occurs, it is in a position to hold its price and reduce its production without losing all its business. As a result it tends to hold up price and reduce volume of production for the industry as a whole.

13. But this means that individuals have a direct power over industrial policy which they exercise in making business policy for their own enterprise.

14. The distinction drawn here between industrial policy and business policy is of the greatest importance.

15. According to laissez faire principles, industrial policy was supposed to result from the interaction in the market of the business policies of a large number of independent units, no one of which had any significant power. In the truly atomistic economy to which the principles of laissez faire applied, no individual buyer or seller alone had any significant power over either price or total volume of production for the industry. Prior to A.A.A., agricultural products, such as wheat and cotton, were produced and marketed under these conditions.

16. Where the number of competing units in a particular industry have been reduced to a relatively small handful, industrial policy is no longer made wholly by the market but in part by individuals. Industrial policy becomes subject to administrative control even though there is no monopoly or collusion between the separate enterprises.

17. But when the business man has the power to affect industrial policy, he almost necessarily makes wrong industrial decisions. The very position, experience and training of the business man which lead him to make the correct decisions on business policy tend to force him to make the wrong decisions on industrial policy in spite of the utmost public spirit which he, as an individual, may seek to exercise. The fact that his decisions are wrong from the point of view of the public interest is no necessary reflection on either his character or his intelligence, but arises from the nature of the situation within which he operates and the functions which he performs.

18. The business man is expected to make business policy in a way to maximize the profits of his own enterprise. When he has the power to choose between lowering price and lowering production,

good business policy frequently requires him in the presence of falling demand to hold price and curtail his production even though this means idle men and idle machines. The amount by which he can count on increasing his sales by lowering price is usually so small that the whole balance of his interest as a business man points toward a restriction of production. The fact that he can lay off his workers enables him to cut production without having to carry the burden of idle workers as he does that of idle machines. His interest dictates lowering price only when he is able to squeeze his costs, particularly his labor costs. At best, it is an even choice whether he will choose to maintain profits or minimize losses by seeking a relatively large profit margin on a reduced volume or a small margin on a maintained volume of sales, and in such a situation the easier device, and the one involving the lesser risk, is the device of holding price and accepting curtailed volume. It is only because this holding of prices has become widespread and customary that the term "price chiseler" could be a term of opprobrium in an economy supposed to be coordinated through flexible prices.

19. The net effect of business control over industrial policy is, therefore, to aggravate any fluctuations in economic activity and prevent any necessary readjustments. An initial drop in demand would result, not in price readjustment, but in maintained prices and curtailment of production, thus throwing workers and machines out of employment, reducing money income and spending power, and further reducing demand. The inflexible administered prices resulting from the shift from market to administration thus act as a disrupting factor in the economy and could cause an initial small drop in demand to become a national disaster.

20. Only as the business man was willing to go directly counter to the interests of his enterprise as a profit-making concern and against business tradition would he make the kind of decisions which, if made throughout industry, would keep the economy functioning and would serve the fundamental interests of business itself. If during the depression individual business men throughout the economy had been persuaded to lower their prices, thus making decisions which appeared by all the standards available to them to be adverse to their interests, the result would actually have been in their interest since it would have reduced the severity of the breakdown.

21. So long, therefore, as concentration exists and important powers over industrial policy are exercised in the guise of business policy and result

in inflexible administered prices, the market cannot be expected to coordinate and balance economic activity under a policy of *laissez faire*.

22. Thus, administrative coordination—the very thing that has made modern technology and a high standard of living possible—has destroyed the effectiveness of the market as an overall coordinator by the inflexible administered prices which are inherent in the reduction of competing units it has produced.

23. It is the effects of this failure of the market mechanism which have brought the overwhelming demand from many quarters for governmental intervention in economic matters. This inflexibility has impeded the balancing of trade between nations, disrupted the workings of monetary policy, brought the banking system to its knees, obstructed full use of human and material resources, disorganized the flow of savings into useful equipment, brought an unbalanced national budget and greatly increased economic insecurity.

## PART II. THE BASIC CHOICE IN SOCIAL POLICY

1. Since the administrative coordination which promises a high standard of living carries with it inflexible administered prices which destroy the effectiveness of the market as an overall coordinator, it is necessary to choose between two alternatives if an effectively functioning economy is to be established—either (1) atomize the administrative units to the point where inflexible administered prices disappear and the free market can become an effective coordinator, or (2) supplement the market mechanism with institutional arrangements (N.R.A., A.A.A., money system, etc.) sufficient to allow the economy to function effectively in the presence of and in spite of inflexible prices.

2. The first road would require the breaking up of large corporate units into a very great number of separate and wholly independent competing enterprises with the loss in efficiency which it would entail. Few realize the extent to which it would be necessary to pulverize industry. Each of the big automobile companies would probably have to be made into a hundred or more independent concerns; the big chemical companies would have to be broken into very much smaller units; and even after the break-up of the unregulated part of industry, the inflexible prices in the railroad and utility fields would impede economic adjustment, unless they also were broken up and made competitive. In order to make a *laissez faire* policy truly effective, productive efficiency would have to be greatly impaired and a lower standard of living accepted than is made possible by modern

industrial organization and modern technology.

3. The second road, while employing the market as a major instrument, would seek to supplement the market at the points where it tends to fail. Many have held that this would require Government ownership or dictatorship since they can see no other alternative to a *laissez faire* policy.

4. Actually, the choice does not lie between private ownership and Government ownership because the problem is primarily the distribution of controls, not the locus of ownership.

5. Nor does the choice lie between the atomization of industry and an economic dictatorship, since it is only necessary to set up an institutional framework through which certain key industrial decisions are made and within which private or corporate enterprise and initiative can function effectively.

6. If inflexible administered prices are to be accepted as an inevitable product of modern technology and modern industrial organization, the following lines of action would be called for to prevent them from being a disrupting influence and to allow the optimum use of human and material resources.

(a) First, all pressure making for a general revision of prices either upward or downward would have to be eliminated from the economy, since any development requiring a general change in the inflexible prices would result in a change in production and economic unbalance. This would mean that a monetary policy would have to be adopted which aimed to keep the flexible prices as a group approximately in line with inflexible prices as a group and that a mechanism for the adjustment of international trade balances through general changes in prices would have to be replaced.

(b) Second, new techniques of control would have to be worked out for establishing the necessary elements of industrial policy so that the self-interest of individuals working through the market but limited by the framework of policy established would tend to produce the optimum use of human and material resources.

(c) Finally, violent dislocations in the flow of savings into capital goods would have to be minimized.

The remainder of this report will be devoted to the problems of making industrial policy.

## PART III. THE PROBLEM OF MAKING INDUSTRIAL POLICY

1. The National Recovery Administration and the Agricultural Adjustment Administration are in part a product of the economic break-down

resulting from inflexible administered prices. The major task ahead of them, if they are to facilitate the functioning of the economy, is to participate in the making of industrial policy where the market cannot produce satisfactory results.

2. The basic problem of both N.R.A. and A.A.A. is, therefore, to devise techniques of control for establishing the necessary elements of industrial policy.

3. Until this is recognized as the basic function of N.R.A. and A.A.A. the economic policies of these two agencies tend to be contradictory and confused; once the true function of these bodies has been recognized, the organization and policy implicit in this function will clarify much of their economic activity.

4. In establishing certain elements of industrial policy, the purpose of N.R.A. and A.A.A. should be to set up a framework within which the actions of individuals or groups, operating on their own initiative and in their own interest, will result in a fully functioning economy. The objective should be to accomplish what the market is supposed to accomplish, namely, a balance of the interests of the various interest groups which constitute industry so as to produce the most effective use of human and material resources.

5. To do this it is only necessary to find key decisions for each industry which, if made right, would so condition the other elements of industrial policy that the latter could be left to the actions of individuals and the operation of the market. . . .

6. The setting of key elements of industrial policy by administrative bodies to facilitate economic functioning is a new technique.

(a) Earlier interventions of government in industry have been essentially different.

(1) Antitrust legislation tried to maintain com-

petition and the market as the maker of industrial policy and failed because it confused the absence of monopoly with the existence of a free market. The market break-down is not a matter of monopoly (as the courts have interpreted the term), but of the making of industrial policy by private individuals.

(2) Public-utility regulation establishes a major element of industrial policy—namely rates—but, because it is focused on the interest of property and not on balancing the interests of investors, workers, and consumers, it tends to aggravate the faults inherent in business decisions—witness the efforts to increase railroad rates during the depression. It has neither tackled the problem of getting service to the public under optimum conditions nor has it taken account of the problem of price rigidity introduced by the process of rate making.

(3) Government ownership and operation has involved taking on the whole job of industrial and business operation instead of simply the key industrial decisions. Government has here had to determine not only industrial policy but also business policy as well, with all the centralization which this involves.

(b) Collective bargaining has been a technique for establishing certain elements of industrial policy, but it tends to place the whole emphasis on the division of the spoils and loses sight of the other major aspects of industrial policy having to do with increasing the spoils to be divided.

7. In determining industrial policy by the making of key decisions, the essential problems are, first, to discover, industry by industry, what, if any, elements of industrial policy need to be established administratively and, second, to set up a mechanism which will get those key decisions made "right." . . .

## TVA

DURING the first World War, the Federal government built at Muscle Shoals in Alabama a dam and power plant intended to increase the nation's capacity for the manufacture of the nitrogeous products needed for the making of munitions. The war ended before the plant could be used and, for the decade afterward, Muscle Shoals was a minor bone of contention, lying unused because no purchaser offered what seemed a reasonable price and because government operation would be "social-

istic." Senator Norris of Nebraska had stood firm against the disposal of Muscle Shoals, so that when the new administration entered the scene in 1933 the disputed dam was still in government possession.

In May, 1933, the Tennessee Valley Authority was created to improve navigation and land reclamation, promote flood control, and sell the surplus hydroelectric power which would be produced by its dams. Also, the Authority was charged with laying out a comprehensive

plan for promoting the social and economic welfare of the seven states in the Tennessee Valley region. In the sale of power (priority was to be given to public bodies and cooperatives), the TVA was to use rates that were to serve as a "yardstick" against which to measure those charged by the local private utilities. This provision aroused great opposition, not only on principle but also on the ground that since a government corporation could borrow at interest terms which no private enterprise could obtain, the costs were not properly comparable. The TVA had to face not only repeated challenge in the courts—which held constitutional most of its disputed activities (the sale of power to municipalities and the construction, for flood control purposes, of dams sufficiently high to produce hydroelectric power)—but also dissension within its own ranks when its chairman disagreed with his colleagues so acrimoniously that, in 1938, he had to be removed by the President.

In spite of these handicaps, TVA maintained itself against attack, dissension, and challenge in the courts and finally built its dams and power lines. Its flood-control work succeeded in guarding the Tennessee Valley from the disasters that struck other valleys in the flood years. The work and achievement of TVA is described by its administrator, David Lilienthal (1899– ), in his *TVA-Democracy on the March* (New York, 1944). Though Lilienthal has a natural partiality for the organization he helped create, his enthusiasm is infectious as he tells how the men who made TVA attempted to use the methods of science to develop an area as a unity and to make the people of that area an active factor in the development. TVA tried to attack the problem of the separation between technological advance and human needs. The first task of the TVA administrators was to get its experts to see their special problems within the context of the valley as a living whole.

The book is most appealing in its descriptions of the growth and activities of TVA; it is most significant in its observations on the

techniques of government. Government as combatant and government as umpire are familiar enough; government as public technician is something new. TVA, organized as an independent corporation, has been able to work outside conventional bounds to show the efficacy of the "Authority" method in dealing with problems that cross state lines yet are regional rather than national in scope. In the area controlled by the Port of New York, the authority method had shown its potentialities; but TVA extended the method over an entire region to demonstrate how joint action may be secured not by Washington fiat, but by the voluntary cooperation of the states and the communities within them. Regional problems, such as power and flood control, should be the concern of technical experts. Through federal autonomous agencies with authority to make decisions in the area where they operate, government may attack such regional problems without creating a top-heavy centralized bureaucracy.

This then is really an essay in political philosophy. Lilienthal is largely concerned with describing the processes by which the destiny of the TVA has been put into the hands of the people themselves. He sees the TVA, in brief, as a demonstration of the feasibility of making democracy function at the grass roots. The experts played and continue to play their parts. Their studies revealed the crimes that had been visited on the region's great natural resources by an earlier wasteful economy. Their researches demonstrated how new devices—peculiar to the needs of the region—could make the subsoil and the soil more productive economically. Their leadership erected the demonstration farms and helped in the creation of cooperatives and the appearance of new small industries. But the vitality of the programs grew from the fact that the local chambers of commerce, farmer organizations, trade union councils, and state, county, and municipal governments were ready to take over responsibility. One of the answers to the perils of the monolithic state is decentraliza-

tion of function; the solution for absentee control and exploitation is grass-roots participation and conservation.

The selection here reprinted is from Lilienthal's book and is published by permission of Harper and Brothers.

## *TVA—Democracy on the March*

BY DAVID LILIENTHAL

### CHAPTER XIV: DECENTRALIZATION: ANTIDOTE FOR REMOTE CONTROL

WHAT I have been describing is the way by which in this region we are working toward a decentralized administration of the functions of the central government.

The chief purpose of such methods of decentralization is to provide greater opportunity for a richer, more interesting, and more responsible life for the individual, and to increase his genuine freedom, his sense of his own importance. Centralization in administration promotes remote and absentee control, and thereby increasingly denies to the individual the opportunity to make decisions and to carry those responsibilities by which human personality is nourished and developed.

I find it impossible to comprehend how democracy can be a living reality if people are remote from their government and in their daily lives are not made a part of it, or if the control and direction of making a living—industry, farming, the distribution of goods—is far removed from the stream of life and from the local community. . . .

Congress established the TVA as a national agency, but one confined to a particular region. This provided an opportunity for decentralization. A limited region, its outlines drawn by its natural resources and the cohesion of its human interests, was the unit of federal activity rather than the whole nation.

To the degree that the experiment as administered helps to solve some of the problems raised by the flight of power to the center and the isolation of the citizen from his government, history may mark that down as TVA's most substantial contribution to national well-being and the strengthening of democracy.

TVA's methods are, of course, not the only ones that must be tried. There will be different types and other methods of administration suitable to other problems and different areas. Diversity will always be the mark of decentralized administration, just as surely as uniformity (often for its own sake) is the mark of central and remote control.

Decentralization in action has been anything but an easy task. Its course will never be a smooth one,

without setbacks and disappointments. Everywhere, nevertheless, the problem must be faced if we are to conserve and develop the energies and zeal of our citizens, to keep open the channels through which our democracy is constantly invigorated.

Overcentralization is, of course, no unique characteristic of our own national government. It is the tendency all over the world, in business as well as government. Centralization of power at our national capital is largely the result of efforts to protect citizens from the evils of overcentralization in the industrial and commercial life of the country, a tendency that has been going on for generations. Chain stores have supplanted the corner grocery and the village drug store. In banks and theaters, hotels, and systems of power supply—in every activity of business—local controls have almost disappeared. To be sure, business centralization has brought advantages in lower unit costs and improved services. Except by the village dressmaker, or the owner of the country store or hotel, the advantages of centralization, at the beginning, at least, were gratefully received. People seemed to like a kind of sense of security that came with uniformity.

The paying of the price came later when towns and villages began to take stock. The profits of local commerce had been siphoned off, local enterprise was stifled, and moribund communities awoke to some of the ultimate penalties of remote control. When a major depression struck in 1929, business centralization made us more vulnerable than ever before to the disruption that ensued. Power had gone to the center, decisions were made far from the people whose lives would be affected. Cities and states were powerless to meet the evils that were bred; the federal government had to act. The tendency to centralization in government was quickened.

It was ironic that centralized businesses should become, as they did, eloquent advocates of the merits of decentralization in government. From their central headquarters they began to issue statements and brochures. And a wondrous state of confusion arose in the minds of men: they ate food bought at a store that had its replica in almost

every town from coast to coast; they took their ease in standard chairs; they wore suits of identical weave and pattern and shoes identical with those worn all over the country. In the midst of this uniformity they all listened on the radio to the same program at the same time, a program that bewailed the evils of "regimentation," or they read an indignant editorial in their local evening papers (identical with an editorial that same day in a dozen other newspapers of the same chain) urging them to vote for a candidate who said he would bring an end to centralization in government.

I am not one who is attracted by that appealing combination of big business and little government. I believe that the federal government must have large grants of power progressively to deal with problems that are national in their consequences and remedy, problems too broad to be handled by local political units. I am convinced, as surely most realistic men must be, that in the future further responsibilities will have to be assumed by the central government to deal with national issues which centralized business inevitably creates. The war has advanced this trend.

The people have a right to demand that their federal government provide them an opportunity to share in the benefits of advances in science and research, the right to demand protection from economic abuses beyond the power of their local political units to control. But they have the further right to insist that the methods of administration used to carry out the very laws enacted for their individual welfare will not atrophy the human resources of their democracy.

It is folly to forget that the same dangers and the same temptations exist whether the centralization is in government or in mammoth business enterprises. In both cases the problem is to capture the advantages that come with such centralized authority as we find we must have, and at the same time to avoid the hazards of overcentralized *administration* of those central powers.

It can be done. It can be done in many business operations as well as in government activities. I have described the way in which the operations of the Tennessee Valley's power system have been brought close to the people of this valley. Certainly that makes clear that no blind fear of bigness underlies my conviction of the necessity for decentralized administration. Here we have centralized only the activities in connection with electric supply which are common to a large integrated area and can best be carried on by a single agency, that is, producing the power and then transmitting it from the dams and steam-electric

plants to the gates of communities. But, as I have pointed out, in the Tennessee Valley system the ownership and management of the distribution systems are decentralized. Here, I believe, is one example, among many, of an effective combination of the advantages of the *decentralized administration* of *centralized authority*.

The distinction between authority and its administration is a vital one. For a long time all of us—administrators, citizens, and politicians—have been confused on this point. We have acted on the assumption that because there was an increasing need for centralized authority, the centralized execution of that authority was likewise inevitable. We have assumed that, as new powers were granted to the government with its seat at Washington, these powers therefore must also be administered from Washington. Out of lethargy and confusion we have taken it for granted that the price of federal action was a top-heavy, cumbersome administration. Clearly this is nonsense. *The problem is to divorce the two ideas of authority and administration of authority.*

Our task is to invent devices of management through which many of the powers of the central government will be administered not by remote control from Washington but in the field.

A national capital almost anywhere is bound to suffer from lack of knowledge of local conditions, of parochial customs. And in a country as vast as the United States, in which local and regional differences are so vital and so precious, many citizens and administrators are coming to see more and more that powers centrally administered from Washington cannot take into account the physical and economic variations within our boundaries. The national strength and culture that flows from that very diversity cannot be nourished by centralized administration.

It has become common observation that in Washington it is too easy to forget, let us say, the centuries of tradition that lie behind the customs of the Spanish-American citizens in New Mexico and how different their problems are from those of the men and women whose lives have been spent in the mountains of the South. It is hard, from a distance, with only memoranda before him, for an administrator to be alive to the fact that the ways of suburban New Jersey are alien to the customs of the coast of eastern Maine. And yet the fact that the ancestors of these people brought dissimilar customs from their homelands, that they have earned their living in different manners, that the climates in which they live are not the same—this is all deeply important when a national program is brought to the men and women in



cities and villages and farms for application, when their daily lives are visibly affected. When those differences in customs are not comprehended, statutes seem irrelevant or harsh. They destroy confidence, and disturb rather than promote people's welfare.

Centralization at the national capital or within a business undertaking always glorifies the importance of pieces of paper. This dims the sense of reality. As men and organizations acquire a preoccupation with papers they become less understanding, less perceptive of the reality of those matters with which they should be dealing: particular human problems, particular human beings, actual things in a real America—highways, wheat, barges, drought, floods, backyards, blast furnaces. The reason why there is and always has been so much bureaucratic spirit, such organizational intrigue, so much pathologic personal ambition, so many burning jealousies and vendettas in a capital city (any capital city, not only Washington), is no mystery. The facts with which a highly centralized institution deals tend to be the men and women of that institution itself, and their ideas and ambitions. To maintain perspective and human understanding in the atmosphere of centralization is a task that many able and conscientious people have found well-nigh impossible.

Making decisions from papers has a dehumanizing effect. Much of man's inhumanity to man is explained by it. Almost all great observers of mankind have noted it. In *War and Peace* Tolstoy makes it particularly clear. Pierre Bezukhov is standing a captive before one of Napoleon's generals, Marshal Davout.

"At the first glance, when Davout had only raised his head from *the papers where human affairs and lives were indicated by numbers*, Pierre was merely a circumstance, and Davout could have shot him without burdening his conscience with an evil deed, but now he saw in him a human being . . ." To see each citizen thus as a "human being" is easy at the grass roots. That is where more of the functions of our federal government should be exercised.

The permanence of democracy indeed demands this. For the cumulative effect of overcentralization of administration in a national capital is greatly to reduce the effectiveness of government. It is serious enough in itself when, because of remoteness and ignorance of local conditions or the slowness of their operation, laws and programs fail of their purposes. We are threatened, however, with an even more disastrous sequence, the loss of the people's confidence, the very foundation of democratic government. Confidence does not

flourish in a "government continually at a distance and out of sight," to use the language of Alexander Hamilton, himself a constant advocate of strong central authority. On the other hand, said Hamilton, "the more the operations of the national authority are intermingled in the ordinary exercise of government, the more the citizens are accustomed to meet with it in the common occurrences of their political life, the more it is familiarized to their sight and to their feelings, the further it enters into those objects which touch the most sensible chords and put into motion the most active springs of the human heart, the greater will be the probability that it will conciliate the respect and attachment of the community."

When "the respect and attachment of the community" give place to uneasiness, fears develop that the granting of further powers may be abused. Ridicule of the capriciousness of some government officials takes the place of pride. Democracy cannot thrive long in an atmosphere of scorn or fear. One of two things ultimately happens: either distrustful citizens, their fears often capitalized upon by selfish men, refuse to yield to the national government the powers which it should have in the common interest; or an arrogant central government imposes its will by force. In either case the substance of democracy has perished.

We face a dilemma; there is no reason to conceal its proportions. I do not minimize the complexities and difficulties it presents. We need a strong central government. This is plain to everyone who sees the changed nature of our modern world. But I have deep apprehension for the future unless we learn how many of those central powers can be decentralized in their administration.

Every important administrative decision need not be made in Washington. We must rid ourselves of the notion that a new staff, with every member paid out of the federal treasury, has to administer every detail of each new federal law or regulation. We who believe devoutly in the democratic process should be the first to urge the use of methods that will keep the administration of national functions from becoming so concentrated at the national capital, so distant from the everyday life of ordinary people, as to wither and deaden the average citizen's sense of participation and partnership in government affairs. *For in this citizen participation lies the vitality of a democracy.*

Federal functions can be decentralized in their administration. But it requires a completely changed point of view on the part of citizens and their representatives. For this business of central-



ization is not wholly the fault of government administrators. Statutes are rarely designed to provide an opportunity for ingenuity in the development of new techniques in administration. Only infrequently do you find a new law which in its terms recognizes the hazards of overcentralization.

Our recent history shows that many public men and editorial writers prefer the privilege of berating administrators as "bureaucrats" to suggesting and supporting ways through which the vices of bureaucracy would have less opportunity to develop. Congress has usually taken the easy course, when new laws are passed, of piling upon the shoulders of an already weary (but rarely unwilling) official the responsibility for supervising a whole new field of federal activity. He has been given a fresh corps of assistants perhaps, but upon his judgment decisions of great detail ultimately rest.

This country is too big for such a pyramiding of responsibilities. In the general atmosphere of bigness, men continue to come about the same size. There is a limit to the energy and wisdom of the best; the ancient lust for power for its own sake burns in the worst.

In the case of TVA, Congress did enact a statute which permitted a decentralized administration. Had not Congress created that opportunity, the TVA could not have developed its administration at the grass roots. An area of manageable proportions—the watershed of a river as its base—was the unit of administration. Decisions could be made and responsibility taken at a point that was close to the problems themselves. That is the test of decentralization.

It is not decentralization to open regional offices or branches in each state, if decisions have to be made in Washington and the officers in the field prove to be merely errand boys. Genuine decentralization means an entirely different point of view in the selecting and training of personnel. It means an emigration of talent to the grass roots. But if the important task, the real responsibilities, are kept at the center, men of stature will not go to the "field."

Neither is it decentralization when bureaus or departments are moved out of crowded Washington. It may be necessary and entirely wise—but it is not decentralization. You do not get decentralization as we know it in the TVA unless you meet two tests:

First, do the men in the field have the power of decision?

Second, are the people, their private and their local public institutions, actively participating in the enterprise?

There is generous lip service to decentralization on every hand. But little will be done about it unless there is real understanding of what it means, and an urgent and never ceasing demand from citizens.

When methods such as those the TVA has used are proposed, the chief objection usually made is that local communities, state agencies, or the field officers of federal agencies cannot be trusted to carry out national policies. Usually the reason is dressed up in more tactful language, but, however disguised, it is the doctrine of the elite nevertheless. The burden of proving that the men who at the time are federal officials in Washington are the only ones competent to administer the laws enacted by Congress certainly lies upon those who advance that reason. Actually such statements often prove the desperate hazards of centralization to the health of a democracy, for they exhibit, in the minds of those who put them forward, a low esteem or affectionate contempt for the abilities of anyone outside the capital city, or else a slavish concern for the existing rituals of bureaucracy.

There are of course many instances where the facts appear to support the claim that good administration of national concerns cannot be obtained through the co-operation of local agencies. Local politics, ineptitude, lack of interest and experience in public matters and in administration, brazen partisanship, even corruption—all these stand in the way. I am sure these hazards exist. I am sure, for we have encountered most of them in this valley. But what are the alternatives? Fewer citizens participating in governmental administration. Less and less local community responsibility. More federal employees in the field armed with papers to be filled out and sent to Washington for "processing," because only there is "good administration" possible. The progressive atrophy of citizen interest. An ever wider gulf between local communities and national government, between citizens and their vital public concerns. Such are the alternatives.

The often flabby muscles of community and individual responsibility will never be invigorated unless the muscles are given work to do. They grow strong by use; there is no other way. Although it is true that decentralization at times is ineffective because of the quality of local officials or field officers, the virtues, by comparison, of what can be done in central headquarters are somewhat illusory. For, without the co-operation of citizens (an admittedly difficult goal) and of institutions familiar to them, no detailed and far-reaching economic or social policy and no democratic planning can be made effective. Surely

there can be little doubt about the truth of this statement, as I write these words, in our second year at war. The daily experience of the average citizen confirms it unanswerably.

The shortcomings of highly centralized administration of national policies are not due simply to the stupidity or wrongheadedness of particular individuals. Naming a scapegoat whenever a mess is uncovered, a favorite editorial and lay custom, is of little help; it usually misses the mark. We need perspective about such things, lest we foolishly take out our anger and frustration for ineptitudes upon this man and that, this party or that, instead of turning our attention where it usually belongs, *viz.*, upon the limitations and dangers of centralization.

These evils are inherent in the overcentralized administration of huge enterprise because it ignores the nature of man. . . .

Out of my experience in this valley I am as acutely aware as anyone could be of the difficulties of securing the active participation of citizens at the grass roots. I know "what a task" (using the words of de Tocqueville) it is "to persuade men to busy themselves about their own affairs." But our experience here has in it more of encouragement than of despair. For in this valley, in almost every village and town and city, in every rural community, there has proved to be a rich reservoir of citizen talent for public service. The notion that brains, resourcefulness, and capacity for management are a limited commodity in America—and this it is that is behind most of the skepticism about decentralization—is a myth that is disproved in almost every chapter and page of the story of the development of this valley.

The fact that TVA was not remote but close at hand has been the most effective way to dissipate the considerable initial suspicion of this enterprise and secure from citizens of every point of view the

existing wide measure of warm co-operation. In the case of the power program of the TVA, for example, if TVA were not in the region and of it, if it could not make decisions until Washington, hundreds of miles away, had "processed" the papers and reached a conclusion, only a few of these valley communities, in my opinion, would have signed a contract with the TVA for power supply. Remote control from Washington would not have seemed greatly to be preferred to remote control from a holding company office in New York. And if TVA had not in turn decentralized its own operations the plan would work badly. TVA's division and area managers and other field officials are not merely office boys with imposing titles but no standing or authority. They are selected, trained, given broad responsibility and discretion, and compensated accordingly.

The decentralized administration of federal functions is no infallible panacea. Of course mistakes are made at the grass roots too. But even the mistakes are useful, for they are close at hand where the reasons behind them can be seen and understood. The wise decisions, the successes (and there are many such), are a source of pride and satisfaction to the whole community. If, as I strongly believe, power must be diffused, if it is vital that citizens participate in the programs of their government, if it is important that confidence in our federal government be maintained, then decentralization is essential.

I speak of decentralization as a problem for the United States of America. But the poison of overcentralization is not a threat to us here alone. Decentralized administration is one form of antidote that is effective the world over, for it rests upon human impulses that are universal. Centralization is a threat to the human spirit everywhere, and its control is a concern of all men who love freedom.

## BANKING AND PUBLIC FINANCE

ROOSEVELT'S FIRST INAUGURAL had pledged reform of the banking system, a promise fulfilled in August, 1935, when the President signed the Banking Act of that year. This provided for increased government control of the Federal Reserve System: the President was not only to appoint all the members of its Board of Governors—who were to approve the person chosen to be president of each Federal Reserve Bank—but the Board of Governors was

to control the Open Market Committee, which had power over the expansion and contraction of bank credits. The Board of Governors was also given the right to raise the reserve requirements of member banks to double the existing maximums, a measure which could prevent the additional currency authorized by acts of Congress from inflating the economy. In addition, the act allowed reserve banks to make loans to their members on time or demand

notes of four months' maturity and national banks were given the right to make loans on real estate, which allowed competition with state banks that had such power. But national banks were forbidden to participate in the underwriting of security issues. At the 1935 meeting of the American Bankers' Association, Marriner S. Eccles (1890- ), one of the governors of the Federal Reserve Board and soon to become chairman of the renamed Board of Governors of the Federal Reserve System, explained the purposes of the new law and urged the banking community to give its cooperation.

Government intervention in the nation's financial activities has been necessary to save the country from its "state of disastrous contraction." The RFC has helped the nation's banks. The Home Owners' Loan Corporation had relieved both banks and the harassed homeowner, thus benefiting creditors as well as debtors. The Federal Farm Mortgage Corporation has prevented the collapse of the farm mortgage market by providing funds, through the issue of government bonds, to be loaned to Federal Land Banks in return for their own mortgage-backed bonds. The services of these agencies and of the relief program have been worth their cost despite the unbalancing of the budget, Eccles argues. For taxes and government debt are not to be considered as mathematical absolutes but in relation to national income. Hence, while a deficit may not be desirable, it is not necessarily destructive. In the present situation, bankers must be ready to extend credit in the form their communities require rather than according to the precepts of liquidity. Eccles then turns from a defense of the administration's policy of what may be called financial "relief" to a defense of government intervention to prevent deflation. When such tendencies appear, government should not decrease spending, for that promotes further deflation, the collapse of confidence, and depression.

Four years after Eccles had appealed to American bankers for cooperation with the

administration's financial policy, he addressed a special meeting of the Harvard Business School Alumni. By 1939, the country had experienced the recession of 1937-38. The recovery initiated by heavy public spending collapsed when that spending slackened. Thus, there still remains the problem: "How Are We to Put Idle Men, Money and Machines to Work?" Though money is available, capital outlay lags and full employment is not achieved. Business leaders insist that taxes and government regulation of the securities market are responsible for the inadequate flow of capital into new enterprise. As a banker and businessman, Eccles declares that a negative reorientation of policy would have small effect upon the economy as a whole. Of all taxes deterrent to business, those bearing on consumption are most damaging since they fall upon the lower income groups which spend rather than save an increase in their income. Tax revision should be in a direction that would tend to stimulate consumer buying power and give an impetus to production. In their own interest, businessmen should prefer providing tax revenue themselves in order that consumption may be increased.

Government expenditure and investment does not become a dangerous policy until it competes with private industry for men and materials, says Eccles. It is not regulation but unwillingness to assume risk that is the great current hindrance to the expansion of investment. Once again, the frontier theory (and Hansen's) serves political argument to explain the slackening of America's industrial growth and to justify a program of redistributing income through taxation. Since we are built almost to capacity and since we have become a creditor nation, we must look to an enlargement of the domestic market. To that end, Eccles suggests a revision of the social security program to furnish adequate pensions now rather than merely to drain present income to provide for the next generation. He urges control of monopolistic practices by capital and labor, a policy which demands a unified labor

leadership and an abandonment of feather-bedding restrictions. In addition to measures to increase consumption, government should invest in useful enterprises upon which private capital cannot venture because of the long delay of return, though ultimately such enterprises will pay out.

A good part of this theory of the need for a "compensatory" fiscal policy is rejected by John H. Williams (1887- ), professor of economics at Harvard and vice president of the New York Federal Reserve Bank, in his article *Deficit Spending* (1941). Deficit spending, Williams points out, is the sequel, in the nineteen thirties, to the previous decades' emphasis on central banking policy as a means of regulating the economy. The central bank theory rested on the assumption that the quantity of money controlled the interest rate, which determined investment which, in turn, controlled the business cycle. When in the early nineteen thirties it became evident that low interest rates did not necessarily lead to investment, the Keynes suggestion of "pump-priming" became popular in government circles and deficit financing was seen as a means of making the easy-money policy effective. In 1936-37, deficit financing was introduced as a positive factor compensating for the gradual

change taking place in a maturing economy.

While Williams is not convinced of the "mature economy" thesis, he does note that France and the United States were almost the only nations failing to surpass the level of output of the nineteen twenties—and France certainly had a mature economy. It is in his conception of economic progress that Williams is most interesting, however. Income, not employment, is the goal of that progress. Hence, underemployment does not mean depression but technological advance; superior technological methods increase the productivity of labor and lead to a greater volume of goods although making an increasing number of workers superfluous. Yet possible loss of buying power through the operation of this tendency will not sap the economy since that is supported not by consumption but by investment; and this last occurs as a result of faith in the prospect of profit, not because of direct fulfillment of human needs.

The two Eccles addresses are reprinted from R. L. Weissman, ed., *Economic Balance and a Balanced Budget* (New York, 1940) and are published by permission of Harper and Brothers. The Williams article is reprinted from *The American Economic Review, Supplement*, Vol. XXX, No. 5, February, 1941.

## Two Addresses

BY MARRINER C. ECCLES

### I. THE FUTURE OF BANKING

... MOST OF MY LIFE has been spent in the field of banking and business and until I unexpectedly went to Washington, less than two years ago, I had never occupied a public position. I, therefore, can talk to you and approach the questions which I am sure we are all deeply interested in, only as a practical business man and banker.

I am reminded in meeting with you today of the contrast between the conditions under which we are now meeting and the conditions under which this same meeting was held three years ago. . . .

What is the reason for this change? It is not a result of accident; it is not a result of letting nature take its course. For three years nature was per-

mitted to take its course in an effort to revive confidence. Little legislation that was disturbing to business was passed. No Banking Act of 1935 was pending to make bankers hesitate to make loans.

But a condition was reached, even as early as the spring of 1932, when Government intervention became unavoidable, not because the Government wanted to intervene, but because the entire financial and credit structure was in a state of disastrous contraction. The Reconstruction Finance Corporation was organized to support the crumbling structure.

The Government had financed the grain and cotton stabilization corporations in order to help agriculture.

The Home Loan bank system was organized in

order to help the urban mortgage situation. But the scale of intervention was entirely inadequate and the forces of deflation had been so much underestimated that a complete collapse resulted in the following spring.

No one objected to an unbalanced budget in order to bolster up the banking, the insurance, the railroads, and the credit structure generally.

Is it consistent or possible to think that Government could intervene in the field of private credit through the banking, insurance, and other private structures and at the same time refuse to intervene in order to stop the foreclosure of farm mortgages, which reached an appalling figure, to stop the foreclosure of home mortgages, which reached a figure as high as 35,000 in one month?

Is it possible to justify the use of Federal credit resulting in an unbalanced budget in the fields referred to, and at the same time permit 12,000,000 men who wanted work to go unemployed?

Business claims the liberty of employing and discharging men when their services cannot be used profitably, and that is its right. But what about the liberty of the man under the conditions that we were confronted with in 1932 and 1933? If a Government is justified in incurring an indebtedness of \$25,000,000,000 to protect its citizens against the encroachment of a foreign enemy in times of war, is not a Government justified in using its credit for the purpose of taking care of those people who found themselves in a position of destitution because of the failure of private industry to give them employment?

The Reconstruction Finance Corporation put a foundation under the banking structure. The Emergency Banking Act passed at the time of the bank holiday permitted the Reserve System to loan not only to national and member banks but to state nonmember banks against any sound asset. When that was announced by the President of the United States over the radio, the people of the country who had withdrawn their deposits in the form of currency and who had attempted to transfer it out of the country stopped that practice, which was totally destructive to the entire credit and banking fabric.

When the people were told that the Reserve System could issue Federal Reserve bank notes against mortgages, against collateral loans and against other good assets held by the banks, without regard to gold backing, without regard to eligible paper backing, without regard to Government bond backing, they brought back into the banks during the next year \$2,000,000,000 of currency which they had taken out.

The Reconstruction Finance Corporation has rehabilitated the capital structure of banks to the

extent of approximately \$1,000,000,000 and it has loaned over \$800,000,000 to the receivers of closed banks so as to prevent the forced liquidation of assets and to give to depositors immediately available funds, so as to relieve them and to enable them to put that money into circulation.

The Home Owners' Loan Corporation was established for the purpose of relieving home owners in distress and up to the present time has loaned approximately \$3,000,000,000. The work of that institution is nearly completed. The distressed mortgage is a thing of the past. Real estate values have been stabilized and are advancing. Rents have been on an increase for two years and doubling up is lessening. New home construction is increasing and the Home Owners' Loan Corporation will be through with the work it has done, with more than a billion dollars of unused authorization to its credit.

It not only served as a debtor relief but also served equally as a creditor relief. The mortgages held by the savings banks, the insurance companies and the commercial banks, which they were unable and unwilling to carry, were taken over and funded over a longer period at reduced rates by the Home Owners' Corporation.

The Federal Farm Mortgage Corporation was organized and \$2,000,000,000 of bonds were provided fully guaranteed by the Government, these funds to be loaned to Federal land banks in exchange for the bonds of these banks, backed in turn by mortgages and to be issued as proceeds of mortgage loans by the Land Bank Commissioner.

The Federal land banks are institutions going back about twenty years. In 1932 they were unable to sell their bonds on the market. These same bonds are now selling at a premium and a substantial amount of them have been refunded into issues bearing lower interest rates. When it was impossible to sell them, the Government agency set up for the purpose took those bonds and issued bonds guaranteed by the Government.

That has stopped the collapse of the farm mortgage market, until today I hear that there are more farms being sold than are being foreclosed upon.

These three great creditor agencies have largely done their work. No one is more anxious than the Federal Government to have the private credit agencies take over the load.

The Federal Housing Administration Act was passed for the purpose of attempting to induce the private credit agencies of this country to make loans for construction purposes on insured mortgages and for modernization. Not one dollar of Government funds goes into those loans. The Federal Government was attempting to create a mechanism by which to attract private funds into

the field of credit, and get the Government out.

The Reconstruction Finance Corporation is collecting far more than it is lending. It has loaned about \$5,000,000,000 and has collected more than one-half of the total amount of the loans.

In the field of relief, which we so often refer to as "waste," we have the thousands of miles of public roads, we have the excellent work done in our CCC camps, we have repaired and rebuilt schools, water systems and sewer systems. Truly not all self-liquidating projects. It is possible for the Government to spend money for social purposes, and it should not always judge or gauge its expenditure by whether or not it is a self-liquidating project.

The problem of private profit and self-liquidation belongs to the field of private business and not to the Federal Government.

Now let us see if the results as enumerated are worth the cost of intervention, which resulted in an unbalanced budget. I would like to remind you that we had an unbalanced budget as early as the fiscal year ending in 1931 and that the deficit for the fiscal year ending June 30, 1933, exceeded \$3,000,000,000, that the Government's interest-bearing debt increased from \$20,584,000,000 in February, 1933, to \$28,432,000,000 in September of 1935, an increase of \$7,848,000,000.

Deduct the assets, including cash on hand, the gold profit in the Stabilization Fund, the Government's proprietary interest in organizations such as the RFC, and you have a net increase in the Government debt of about \$3,000,000,000. But let us take the larger figure for the purpose of comparison. Let us take the amount of the gross deficit.

Should we be alarmed over that situation? Should some of the increases which I have referred to—such as the \$20,000,000,000 increase in the quoted value of listed stock without taking into account an increase of from \$15,000,000,000 to \$20,000,000,000 in the national income in one year—give us any cause for concern about even the amount of the gross deficit? Does it mean that we are putting a great burden upon posterity?

If you will recall, during the ten years from 1920 to 1930, while the Government debt which had been \$26,000,000,000 incurred almost entirely in a period of two short years, was decreased by about \$10,000,000,000, this country at the same time added \$100,000,000,000 or more to its new wealth in the form of increased productive facilities and we purchased \$10,000,000,000 of foreign security issues and reduced the Federal income taxes during that period four different times. If we could do it then, why think that we cannot do it again? . . .

Have we not yet learned that what we cannot afford is not the burden of carrying the national debt, but is an army of idle men and unutilized facilities? For the cost of what we lost in the last few years as a result of permitting deflation to run far on its course before checking the devastation—the loss in national wealth and the national income from idleness of millions of men and innumerable productive facilities—would run into more than \$150,000,000,000. The entire amount of our present national debt is less than four months of the normal national income. . . .

I do not want to give you men the impression that a budgetary deficit is desirable. I only want to point out to you that it is not the serious thing it has been magnified to be. The serious thing is the loss of \$40,000,000,000 in our annual national income, which the capitalistic system, when left to itself without adequate Government intervention, brought about by the year 1932.

We shall not continue to have a budgetary deficit when the conditions that cause the deficit, the reduction in national income, are corrected. As national income increases Federal income increases, and as Federal income increases the need for Government spending decreases, because of an increase in activity, employment, prices, etc.

And that is the trend today. From more than \$4,000,000,000 in 1929 the Federal income dropped down at the bottom of the depression to \$2,000,000,000, and is now back at more than \$4,000,000,000.

The deficit which reached a peak in the fiscal year ending June, 1934, was approximately \$4,000,000,000, and it is estimated that in 1936 it will be \$3,280,000,000.

I should like to sum up what I think all this means to bankers. I feel that you have every reason in the world to have confidence that the system of private industry and the system of private banking has a future if you will but profit by the lessons of the past, if you will but do your part and step out into the field and extend not the type of credit that you may prefer to extend, '90 days' or 6 months' credit, but the kind of credit that there is a demand for in your communities. You don't hesitate to buy in the market finance company paper and intermediate credit bank paper at as low as one per cent. Why don't you short-circuit the funds and lend directly to those in the community that are going outside and paying from 5 to 12 per cent for credit from the very institutions which you are financing at one per cent?

Why don't you, when you are the custodians of \$10,000,000,000 of the savings funds of the people, invest those funds in the field where such

funds should be invested? They are the same type of funds as the funds that the insurance companies, the mutual savings banks, and the savings and loan associations are investing, and if you are going to hold those funds and pay interest on them, you must put those funds in the long-term mortgage market, in the long-term bond market, and you can do it with every security.

You are loaning on a basis of values that is not inflated, and if you want the Government and the Government agencies to get out, then it is up to you to get in.

If you prefer to buy Government bonds and bonds guaranteed by the Government, to act as your cushion, then you cannot complain about the Federal Government being a competitor with you in the field.

If the Government had chosen or desired to destroy private banking, it needed to do nothing at all. In 1932, private banking had completely destroyed itself. But the Federal Government believed in private banking, and in private initiative, and in private business, and for that reason it saved the banking system for the bankers to do a better job in the future than many had done in the past.

It seems to me, in summing up the review I have made, that an analysis of the nature, the cost and the timing of Government intervention, and of the recovery factors brings out conclusions which are inescapable. First, in order to keep our productive processes going and expanding, we must maintain a reasonable balance between our productive facilities and consumer buying power. Failing this, money becomes idle because it cannot find profitable outlet for investment, unemployment develops because buying power is insufficient to absorb the output of industry.

This results in the commencement of a period of deflation. It causes a contraction of debt, a reduction in spending, and, if the cycle is allowed to continue, this inevitably results, because the cycle is self-accelerating, in general prostration and bankruptcy.

It is as necessary to intervene to correct a situation of this sort as it is to prevent a cycle of inflation.

There will be one thousand bankers saying that inflation should be avoided and that public authorities, public officials in the Reserve System and in Government should stop inflation, whereas there is possibly a handful who feel, or at least have felt, that deflation should not be allowed to go its normal and natural course, that the natural law should be interfered with.

I cannot reconcile these two positions. I see no greater evils in inflation than in deflation. In fact,

I think of the two, deflation is far more destructive to bankers.

It is necessary to intervene to correct a situation of this sort, just as necessary as it is to prevent a cycle of inflation. Only Government, which is all of us, is capable of acting collectively to offset and neutralize the effect of the down-swing and by its spending and the use of its credit effect the necessary distribution that private capital, left to the individual, has failed to effect. Action taken promptly by Government to stop the process of deflation in its inception will tend to keep up the national income and correct maldistribution and inequitable distribution, and at an infinitesimal cost compared with the cost to society as a whole if deflation is allowed to run its natural and destructive course. For Government to decrease its spending at the outset of a deflationary period, when everyone else is doing likewise, only accelerates the forces of deflation and does not create confidence. In such a situation capital does not flow into productive facilities because they are already excessive in relation to consumer buying power. . . .

We have seen from the experience of the past three years that it is possible, through adequate Government intervention, to turn the tide of deflation to what has been termed "reflation." Is it not reasonable to conclude that had intervention come sooner and on a more adequate scale, it would have taken far less spending and lending by the Federal Government to arrest and reverse the process of deflation?

The bankers above all have been the beneficiaries of the Government's intervention. The Government alone could and did replenish the supply of deposits when individual borrowers were lacking and when banks had no other profitable outlet for their funds than the investment in Government securities. Banks bought Government securities, not because of compulsion, but because they had no other avenue of profitable investment.

The Federal Reserve System has purchased no Government bonds, has given no support to the Government bond market for two years, and the present amount of outstanding credit by the Federal Reserve System is less than it was in the spring of 1933. The excess reserves of the banks, which make money cheap, which induce them to purchase securities and make loans at present low interest levels, are a result very largely of gold imports.

Banks bought Government bonds, not because of compulsion, but because they had no other avenue for profitable investment. Government bonds, far from being a burden, have been a God-send. . . .



I do not see how any thoughtful man can challenge the conclusion that in order to preserve our capitalistic system, our institutions and traditions, we must use such governmental means of economic and monetary management as we now possess in achieving a greater stability in the economic order and in creating conditions under which our man power and productive capacity may be utilized to a maximum in the production and the distribution of wealth.

The Federal Reserve System, with its authority over margin requirements and—under the Banking Act of 1935—its clarified responsibility for reserve requirements, discount rates and open-market operations, is in a better position than ever before to exert its influence toward the attainment of a greater degree of stability and the avoidance of inflationary and deflationary extremes.

These powers, if exercised harmoniously, in conjunction with those possessed by the Federal Government through the Treasury—and to attempt to exercise the divided powers separately or conflictively would be fatal—can, I am confident, contribute much to the achievement of a stable, orderly economic progress, free from violent extremes, and conducive to a maximum productivity and distribution. This involves neither a regimented nor a restricted economic order. It calls for Government intervention only to the extent that the exercise of governmental authority affecting monetary and budgetary factors may be a stabilizing and corrective influence in an individualistic, capitalistic system when it, left entirely to itself, generates distortions, lack of balance and cyclic extremes.

The Government must be the compensatory agency in this economy; it must unbalance its budget during deflation and create surpluses in periods of great business activity.

In the light of experience and in the interest of the public in general and of private banking in particular, it seems to me to be conclusively demonstrated that business and banking leadership should lend its full sympathy and support to the kind and extent of Government intervention that I have outlined. Only then, it seems to me, can private banking be assured of safe and profitable operation in the future and be freed from the uncertainties due to recurrent evils of booms and depressions.

## 2. HOW ARE WE TO PUT IDLE MEN, MONEY AND MACHINES TO WORK?

There is one thing on which I am sure we can all agree, namely, that our economic condition, with the existing large volume of idle men, idle

money, and idle plant equipment, is unsatisfactory and that a material improvement must be brought about to vindicate and preserve our economic system.

Secondly, I think that we will also all agree that we have abundant material resources and money, so that they are not a limiting factor on further recovery. In fact, the supply of funds is not only more than adequate under present conditions for an expansion of output, but our monetary and credit system has sufficient elasticity so that we can always create the funds necessary to expand production within the limits of our man power.

We may say then, I think, that our greatest domestic problem—the major task before the nation—is to find productive employment for all of our people capable of working who are now unable to find employment. The magnitude of the problem is measured by the number of these people. Allowing for a certain unavoidable minimum of unemployment due to seasonal and other special reasons, there are more than eight million men and women for whom work should be found.

That it is not a scarcity of money that prevents a more satisfactory economic condition from developing is clear from the fact that our supply of money represented by demand deposits and currency today is larger by several billions of dollars and interest rates are lower than ever before in our history. In addition, the excess reserves of member banks at the present time exceed \$4 billions, a heretofore undreamed of surplus. These reserves could become the basis for a further expansion of our money supply to the extent of more than \$25 billions.

While some of the smaller business concerns may be having difficulty in obtaining funds that they would like to use, this is not true in general either for the great majority of the smaller companies or for the larger corporations of the country whose balance sheets show that they are the owners of billions of dollars of bank deposits. The great corporations of the country could, generally speaking, considerably expand employment and production without going to the capital markets to raise a dollar of new funds and without borrowing from the banks. Our problem is not to create more funds, but to find productive use for those already in existence.

The extent to which this is a problem is indicated by a comparison with the period of the twenties. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15 billions a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would ap-



pear that comparable outlays today to insure reasonably full employment would have to be more than \$18 billions a year, provided there is no material change in the present division of the national income between consumption and new investment. According to our past experience, we must have a continuous annual flow of all of our savings accumulations into all kinds of capital outlays. This has required a continuous growth of new investment in new undertakings both public and private.

For the year 1938, according to our estimates, the total of private capital outlays was about \$8 billions. It reached a low point of \$2½ billions in 1932, but by 1935 it had recovered to approximately \$10 billions, and by 1937 to about \$11 billions. In addition, in 1937 there was an increase in business inventories of some \$4 billions. While the increased inventory accumulation had the same effect on employment as a similar amount of capital outlays would have had, the effect was only temporary because, as we saw, new demand in the next year was met out of inventories, production was retarded, and employment declined.

The question today is whether we can restore the volume of private capital outlays to a point sufficient to absorb unemployment as has been the case in the past, and if not, what alternatives confront us. In other words, in order to maintain a flow of funds into new capital outlays in sufficient volume to provide full employment, we must either have new private capital outlays of approximately \$18 billions, or we must have a combination of private and public outlays of this amount, or we must increase the proportion of our national income that goes into consumption by an amount equal to the reduction in private and public investment. Unless we follow one of these courses, we face a decline in production and employment and hence in national income and our standard of living. . . .

We can all agree, I think, upon the simple economic truth that to maintain and increase our standard of living and our national income, and hence to reduce unemployment, we must have a continuous, increasing flow of money throughout our economy from consumers to producers and back again from producers to consumers. This means that we cannot withdraw and hold idle large sums of our annual income because to do so obviously diminishes the flow. Thus, the amounts that we put aside in our savings accounts, insurance policies, in retained profits, in depreciation, obsolescence and depletion reserves, and in all other forms of storing up for the future, must be put back into the income stream, if not by the savers them-

selves through investments, then by borrowers who will put the money to use. When this process does not take place, deflation is inevitable and the Government as a coordinator, through its fiscal, monetary and other policies, must take measures to restore and maintain the income stream.

We hear it said continually that there is an absence of risk or venture capital willing to go into new enterprise. I do not think there is an absence of the capital, but there undoubtedly is an unwillingness to assume the risk. I think that this may be due in part, but only in relatively small part, to the fact that the entrepreneur who is in the upper income brackets feels that he is as well off buying tax-exempt bonds as he would be in venturing his money in some new business. I am convinced, however, that if markets existed for additional products of existing enterprise, or if new markets were in sight calling for additions to existing enterprise, or if new inventions were at hand for which a demand would probably develop, there would be no lack of risk capital willing to undertake the necessary investment. . . .

I have no basis for hoping that the special incentives or the removal of the deterrents indicated by business interests would be sufficient to put our economic machine in high gear. Historically, new investment has always led the way in our economic progress. The forward thrusts of new capital adventuring have not been steady but sporadic, and in the interludes, periods of relative stagnation, men have become discouraged and concluded that the era of expansion was over.

The turn of the century marked a change in the character of our economic development. The western frontier had largely disappeared, and there were no more free lands to be had for the asking. America was beginning to come of age. I am sure that a gradual readjustment to the new conditions would have been necessary and would have occurred beginning at that time had our normal development not been abruptly interrupted by the World War which resulted in an unlimited demand for certain kinds of goods and which left us with an aftermath of dislocations.

Incidentally, the war resulted in a suspension of private building which led to an enormous volume of housing activity in the twenties. This volume of building, together with the phenomenal expansion of the automobile industry, constituted the principal basis of our prosperity in that decade. Additional factors were a large volume of foreign loans, which in many cases subsequently defaulted, but in the meantime created foreign purchasing power for our products. There was also a large expansion in the utility industry, and in many

collateral activities producing the material for building, for automobiles and for electric equipment. There was also a large growth of consumer credit and a siphoning of funds into luxury consumption through profits made in security speculation. Also, states and municipalities, which provided an outlet for investment funds of nearly a billion dollars a year in the twenties have been reducing their debts since 1932 and thus increasing the supply of funds that need to be invested. . . .

We hear it said that there is a great backlog of deferred investment in industry, but as a matter of fact, there has been a considerable volume of investment in recent years, and industry has been putting on the market many new products. The actual volume of private investment for plant and equipment reached a level in 1937 as high as in 1923 and 1924, and within a billion dollars a year of the 1925-28 average. In 1937, according to the estimates of our research division, plant and equipment expenditures on new durable producers' goods aggregated \$7.4 billions. Of this, \$3 billions was in manufacturing and mining—an amount greater than like expenditures in 1927 or 1928. Where there was the greatest difference—the largest decline of investment in 1937 as compared with the 1926-28 average—was, first, in commercial buildings, and, second, in the utility field and, to a lesser degree, in railroads. Expenditures on commercial buildings averaged \$1,188,000,000 for the years 1926 to 1928, both inclusive. The figure was only \$367,000,000 in 1937. We have only to recall the speculation in this field in the late twenties to answer the question of whether there is an outlet here today for funds comparable to the twenties.

As we look about us today, the most promising fields in which to put idle men, money and materials to work are housing, railroads, and to a lesser degree, the utilities. These are the fields in which the depression struck deepest and the unemployment was greatest. I believe we could do much in all three fields.

Some plan for rehabilitating the railroad industry and for making it feasible and profitable for the railroads to purchase equipment which they are sure to need in the future should be developed.

As to housing, a great deal has been done in the past few years to get private capital moving more actively into this field, particularly through Federal Housing Administration insured mortgages. Housing is the one factor that registered an upward turn on the business chart when all other indices were diving downward in 1938. I think it would be possible to lower interest rates from the

present level another one-half or possibly 1 per cent, and thus tap another strata of potential home owners.

Residential building was at an unprecedentedly low level through the early and middle thirties. This was primarily a result of depression, but the lower rate of population growth also reduced the accumulating pressure on housing accommodation as compared with earlier periods. I think we have by now built up a backlog of housing demand which, if we can keep national income at a fairly high level, should give us an increasing volume of building activity for several years to come. As we look ahead, however, we can no longer count on the pressure of rapidly increasing population to surmount all obstacles in the building field. Increasingly the problem will become one of tapping lower strata of demand through the provision of lower cost housing.

As for the utilities, I think they ought by now to feel fairly well assured that they have a future under private ownership and need not be deterred from needed expansion of their plant.

But when we add up all the amounts we could possibly hope to expend under the most favorable conditions in these three fields of private housing, railroads and electric power, we come out with a figure of between \$5 and \$6 billions, which is small in relation to the magnitude of funds that have to find outlets for investment under the present distribution of the national income if we are to achieve full employment.

With the slower tempo of our national growth, and being now a creditor and not a debtor nation in need of capital, we must devise means to enlarge the domestic market for our products. To do this we need a better balanced distribution of our national income, which in turn involves the steady channeling of additional funds into the hands of those at the lower end of our income scale. . . .

Perhaps the most important single step that can be taken now to increase the purchasing power of consumers and thus to diminish the need for investment outlets is to revamp our present old-age insurance program. Under this plan by the end of this year it is estimated that there will have been collected from payroll taxes \$1.7 billions, this burden falling almost entirely on consumers, whereas, practically nothing has been paid out in benefits. It is so constructed as to collect taxes from young men now with a view to taking care of them when they become old. This system needs to be so revised as to provide a reasonable pension to old people immediately, regardless of whether or not they have contributed to the fund. This would not only meet a great social need and popular de-

mand, but would also be a sound economic measure at this stage in our economic life.

The present plan is operating as a gigantic saving device at a time when there is a surfeit of saving; it is decreasing consumption when we have inadequate consumer buying power. It would be appropriate to a capital-poor country where a curtailment of consumption was necessary in order to divert more resources into the making of plant and equipment. It has no possible economic justification, however, in our capital-rich, consumption-poor economy.

Payroll taxes in England amount only to 60 per cent of old-age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.

In order to provide for the maximum possible elasticity in our economy so that there will be no obstructions to the income flow, we must find means of controlling monopolistic and other uneconomic practices both by industry and by labor.

The policies of many of our large industries to meet a decline in demand by radical curtailment of output, while leaving prices at high levels, result in accentuating depressions. On the other hand, rapid price advances at the first indications of the return of a lively demand tend to bring an upswing in business to an end. These policies tend to create maladjustment between industrial and agricultural prices, which in turn have a seriously disturbing effect on the whole economy. Better planning of production and price policies by business concerns with reference to more than the short-time garnering of profits would do much to reduce violent fluctuations in business.

I want to take this occasion to explain more fully my position on labor. My sympathies are all with the real interests of labor. I fully realize the importance both from the social and the economic point of view of having continuous employment of labor at as high a real wage as the national income will permit. In fact, full employment and adequate consumer buying power (and surely that includes labor) is the central objective toward which our national economic policy should be directed. But the first requirement for a satisfactory labor policy is responsible and not conflicting leadership of labor itself. Furthermore, wage advances must in general correspond to and be paid out of increased productivity of labor. It is obvious from an economic point of view that there is no other continuous source out of which increased labor costs can be met. Monopolistic advantages and practices of certain minority labor

groups, such as the organized building trades, are at times an important disrupting influence in our economy. In the spring of 1937, for example, an important factor in arresting the economic recovery which was under way was the shortage of certain kinds of skilled labor and excessive labor and material costs in the construction industry.

Premature advances in hourly or daily wage rates and excessive reductions in hours of labor of minority labor groups, having strategic trading advantages derived largely from restrictive practices in regard to union membership and the training of apprentices, are not in the lasting interests of labor. They result in a decrease in employment and a loss of annual income which is far more important than hourly wage rates. Furthermore, they fall heavily in increased costs on the great mass of industrial labor that is not so favorably situated and on agricultural workers. Most important of all, however, is that these labor-cost maladjustments tend to arrest economic recovery with grave consequences to all the elements of the population. Rational, far-sighted labor policies and responsible labor leadership are necessary in the interests of labor itself and of continuous economic advance for the nation as a whole.

I have given much thought and study to the analysis which I have presented to you. I come out with the firm conviction that, in order to keep up the flow of income and prevent the progress of our economy from being arrested, we must adopt—in addition to the various measures and proposals that I have outlined—a program, on the one hand, of increasing consumption relative to the national income through the development of old-age pensions, health and other social services and, on the other hand, of undertaking increased public investment in useful enterprises of a kind that private capital will not undertake, but which, nevertheless, can be in large part self-liquidating. Such public investment could take the form of toll roads, tunnels and bridges; rural rehabilitation and farm tenancy loans, especially in the south, to make our farmers independent and self-supporting; an extension of the rural electrification program; hospitals and sanitation facilities to reduce the appalling economic waste of sickness and to make our people healthier and more efficient; and expansion of public housing for the lowest income groups. Such a program need not involve budgetary deficits; it is entirely consistent with a balanced budget. In fact, I can see no prospect for balancing the budget in the near future except by following this general course of action which would increase national income and consequently increase tax revenues. . . .

I recognize that you may not accept as conclusive either my statistics or my analysis. It may be, of course, that an epoch-making discovery is just around the corner that will result in a greatly increased flow of investment. It may even be that private capital will suddenly and spontaneously begin to flow in greater volume than it ever has before. I feel strongly, however, that even if that should happen, the only safe course for the nation to pursue is, while hoping for the best, to plan for the worst. There is nothing to be lost by this course of action. If it should develop that our labor is practically all employed, our income restored, and Government is competing with pri-

vate business for labor, then the Government could and should promptly curtail its investment operations. There will be nothing lost. Whereas, if we drift and hope for miracles to pull us out of the present condition, then it will become increasingly difficult to handle the problem.

What is at stake is nothing less than our economic and political system. We must not take chances on delaying action too long. We need a concrete and flexible program that can be put into effect promptly. Let us hope for the best, but for the sake of preserving our liberty and our freedom of economic enterprise, let us be prepared to grapple with the worst.

## *Deficit Spending*

BY JOHN H. WILLIAMS

... IN THE EARLY PART of the first Roosevelt Administration, there was little or no evidence that public spending was to be a major policy of recovery. It is true that some early steps to cut expenditures were soon reversed, but the main emphasis for recovery in 1933 was on monetary policy and especially on raising the price of gold, with the repeatedly announced goal of raising commodity prices to the 1926 level. There was also the quite different approach through NRA, and much discussion of the contradictory character of these two major attacks upon the problem. The NRA policies had, in my opinion, an important bearing upon deficit spending. By raising costs they impaired its effects. They were related also in the sense that it was intended that the code activities under General Johnson should be accompanied by a public works program under Mr. Ickes, which gave rise to subsequent comment that the chief mistake may have been in not reversing their roles. But in this early public works program, which as it turned out amounted to very little, there seems to have been little or no emphasis on *deficit* spending as the means to recovery, and federal deficits were defended mainly on humanitarian grounds as necessary to provide temporary relief for unemployment until recovery could be achieved by other means.

Some date the beginnings of a conscious policy from Keynes's visit to this country in June, 1934, when he said that if we spent two hundred millions a month we would go back to the bottom of the depression, a net monthly deficit of three hundred millions would hold us even, and one of four hundred would bring full recovery. Keynes gave this formula, the precision of which I have always ad-

mired, to various meetings of economists and doubtless also to the Administration. There was no indication, however, then or for several years later that the government was deliberately pursuing a deficit policy as a major means to recovery, and the President's budget messages continued to promise an early balancing of the budget.

The fact seems to be that as interest in other recovery measures waned, while the deficits continued to be large, there was a growing disposition on the part of many persons, within and without the Administration, to regard the deficits themselves as the major cause of the recovery. The first evidence that the Administration, as distinguished from a large and influential group within it, had adopted this view came during the new depression of 1937-38, when, after a protracted internal debate, a new spending program was hastily improvised in the spring of 1938, and passed by Congress. A similar program put before Congress in the spring of 1939 was defeated. Since then we have had the appropriations for the defense program, which has raised other issues than that of spending as a recovery measure and has had the support of the whole community regardless of attitude toward the earlier deficits. . . .

... During the twenties the emphasis was on central bank policy. The central bank, by its control of reserves, could control the quantity of money, which controlled the interest rate, which controlled investment, which controlled the business cycle. There was a shift of emphasis from the short-time rate to the long-time rate. There was a growing interest in the "natural rate," which equates saving and investment. There was a shift of emphasis from the rediscount rate to open-

market operations. There was the controversy over federal reserve policy with relation to the stock market boom, with much discussion as to whether, by failing to raise rates soon enough and high enough, the Board had allowed the security boom to run to heights from which a general depression was bound to follow, or whether by attempting to pursue a restrictive policy toward security speculation, which was not its legitimate concern, it had through high money rates and contraction of the money supply brought on the very depression which it feared.

When the depression came, as already stated, the emphasis continued to be on central bank policy and the interest rate, with much insistence that open-market operations were not large enough, not begun soon enough, or not continued long enough. When these operations resulted in excess reserves, and the latter were greatly increased after 1933 by gold inflow, there was at first considerable interest in how much excess reserves it would take to break down the bankers' liquidity complex; but as the excess reserves continued to pile up and attain huge dimensions and interest rates sank to levels never previously reached, it was generally recognized that, whatever may have been the defects of central bank policy, the main trouble lay in the inadequacy of the interest rate, by itself to control investment and the cycle. . . .

## II

Deficit spending is the logical sequel to central bank policy, and it was entirely logical that its first phase should be pump-priming, for the latter does not differ in purpose or in general analysis of the problem from central bank policy, but seeks to make more effective the methods of attack. The financing of deficits represents a further step toward making an easy money policy effective, for when combined with pressure through reserves, it affords an avenue for expansion of bank assets and deposits accompanied by a declining yield on government securities. In addition to the new money thus created, government borrowing provides an outlet for old deposits which might otherwise remain idle rather than assume the risks of investment in depression. Theoretically, the fall of the rate on government securities should spread to other investments and loans, attracting both bank and nonbank investors, until after a transition phase of refunding of old securities, the new issues market is affected and a stream of new investment set in motion. To some extent, this process has been discernible but when we review our experience as a whole, it is disappointing. The combination of deficit financing and excess reserve

has accentuated the cleavage between interest rates too low and too high, and though there was some increase in activity in the market for new capital prior to the downturn of 1937, the entire period since 1933 has been characterized by a much smaller volume of new security issues than in the twenties, or in earlier periods on a comparable basis.

The main contribution, however, which pump-priming sought to make toward overcoming the inadequacy of central bank policy, was in the deficit spending itself rather than the method of its financing. If lowering the interest rate would not, by itself, sufficiently induce investment, this object could be achieved through the creation of new consumer income by means of deficits. Investment in producers goods would thus be induced through increased community spending on consumers goods. There was a presumption, at least at first, that under this combined stimulus of income creation and low interest rates, the deficits would not need to be large or long continued. The budget would have a diamond-shaped pattern corresponding to the business cycle, with deficits in depression and surpluses in boom periods both tapering from the turning points.

The main emphasis was laid on the multiplied and cumulative effects of the spending. It was in connection with pump-priming that the multiplier concept first came into our discussions. . . .

Perhaps the simplest version of the multiplier and the one most useful for the pump-priming analysis is that which considers the effects of an initial or primary deficit spending as a sequence through time, the secondary effects being the sum of the successive consumer incomes during the period, each multiplied by the percentage of income received which is spent, which in turn depends upon the percentage of leakage through saving. In the pump-priming theory, the combined primary and secondary spendings, with which alone the multiplier is concerned, would lead to tertiary spending, which is the induced investment; the investment would then have its own multiplied effect, and so on cumulatively, with deficits tapering, until the opposite phase of the cycle is reached and surpluses appear.

I do not think it is profitable to take time to discuss pump-priming in detail. Our own experience has not in general conformed to the expectations of its advocates as to the amount of induced investment or as to budget tapering, and certainly not to the expectation that there would presently be budget surpluses. I am inclined to side with those who hold that this kind of spending, in the form of relief to consumers, does not reach down

far enough into the productive process to provide effective leverage, but soon dissipates its force in consumer transfers without much effect on investment, save possibly on short-run investment. . . .

The vogue of pump-priming was prior to 1936-37. In 1936, Keynes, who had done most to stimulate the pump-priming discussion with the pamphlet on *The Means to Prosperity* (1933) and his disciple Kahn's article in the *Economic Journal* (1931) on the multiplier, published his *General Theory*, which dealt not with the business cycle but with a secular tendency toward underemployment. In this country, the recovery gave way in 1937 to a new depression at a time when the budget for a brief interval came into balance not through reduction of expenditures but owing partly to the mistaken policy of building a social security reserve, and even more to the fact that with rising national income the federal revenue substantially increased. The conviction grew that we were faced with something more than cyclical recovery from a major depression. The emphasis shifted from pump-priming to the need for deficits as compensation for long-run structural changes in the economy; deficits which might be permanent or at any rate should be continued so long as underemployment prevailed. . . .

### III

Since 1936, as I have said, the emphasis in fiscal theory has been not on stimulating private investment, temporarily depressed, but on compensating for the lack of it. This is a fundamental change. It rests on the view that private capitalism is no longer capable of providing full employment. Two explanations of this defect have been offered; the oversaving theory and the underinvestment theory. It is important to recognize that these are two distinct explanations, though they can be combined and to a large extent have been in recent discussions.

Keynes's oversaving theory is derived from "psychological laws" operating in the institutional framework of modern private capitalism. Most important is the "propensity to consume," according to which as income rises a part of the increase is saved. Keynes believes an increasing fraction is saved, but this he says is not part of the law. To prevent reduction of income, output and employment, investment must increase equally with saving, but investment is limited by the "marginal efficiency of capital" (diminishing productivity as interpreted by "expectations"); and the cost of investment cannot be reduced sufficiently by low-

ering the rate of interest because at some minimum rate we prefer liquid funds to the risk of investment. Net idle saving forces income and employment down to some level at which, through the decline of saving, investment and saving become equal. To get more income and employment we must have deficit spending to offset idle saving or must tax away and spend the idle saving. This fiscal policy should be accompanied by monetary action to reduce interest rates and overcome, so far as possible, the effects of "liquidity preference."

This theory could never account for a depression without bringing in cumulative cyclical factors, which are not a part of the analysis. It merely tells us that as we progress to higher income levels, progress becomes harder; according to the "law" it is only as income rises that more is saved. What I have to say about employment, which is Keynes's chief criterion of progress, applies also to the underinvestment theory and will be given later.

Keynes's statement about the "propensity to consume" is a plausible hypothesis. Its application is limited by the fact that it cannot be applied to producers' saving, or at any rate to corporate saving which is an important part of the whole. It is further complicated by the fact that there is an opposite tendency in the business cycle, which Keynes had previously described as an excess of investment over saving in the boom and an excess of saving over investment in the depression. Though this is an inaccurate picture of the cycle, which I prefer to describe as a cycle of spending and not-spending, it illustrates the complication. Of course, both statements could be true, with the cyclical tendency riding on the surface of the more fundamental one.

In discussions of fiscal policy Keynes's hypothesis about saving has been too readily accepted as law or as fact. No one, so far as I know, has yet given us estimates of saving of a kind that really bear upon this argument. . . . As Keynes pointed out in his book, real saving and investment must be equal. What is needed for his thesis is a study of *monetary* saving and investment. I appreciate the difficulty, perhaps the impossibility, of making such a study but until we have it we continue to deal with a hypothesis. . . .

The underinvestment thesis has a better factual foundation than the oversaving theory, and presents a stronger case for long-run deficit spending. It is based on the view that as the capitalistic economy progresses it reaches a stage at which the opportunities for investment decline. This "mature economy" thesis is too familiar to require elaboration. It uses, in general, the same analytical

apparatus as the oversaving theory, starting from the same truism that investment plus consumption equal income. It has the same criterion of prosperity: full employment. But the decline of opportunities for investment is not in the other theory, and the tendency toward oversaving is not necessarily a part of this one, though, as I have said, in much of the recent discussion the two have been combined.

The reasons why as an economy matures investment opportunities decline have been presented with great force and much statistical support. Some of them carry considerable conviction, particularly as regards their bearing on employment. This is especially true of the technological changes from capital-using to capital-saving devices. I am less convinced by the reference to declining rate of growth of population, not only because it relates to individuals rather than to families, but because it unduly subordinates, I believe, the possibilities of changes in quality (standard of living). The argument about the passing of the frontier seems to me not one of the strongest, largely because I am influenced by my earlier studies of international trade, which showed that trade was greatest not with the frontier countries but between the industrially developed countries having higher living standards and greater purchasing power. But as regards employment there may be no easy substitute for free land.

One of the most difficult and necessary tasks is to compare our experience of the past decade with the earlier great depressions, sifting out the elements of similarity and difference. Economic progress in the nineteenth century was very great but it came by jerks with recurring periods of unsettlement and stagnation. Each period had its special characteristics but economic maturity was not one of them. In how far is this latest experience ascribable to this new circumstance? Has this last experience been essentially different from the others or merely on a larger scale? The most difficult matter to square with the mature economy explanation is what happened in the rest of the world. This country stood virtually alone, except for France, in its failure to surpass substantially the level of output of the twenties. This difference cannot be accounted for by military expenditures except in a few cases, notably Germany and Japan. In England military expenditures were not an important influence before 1938 and in many other countries such expenditures were not a major factor in recovery. Yet many of them, especially England, are more mature than this country. . . .

I entirely agree that as an economy matures investment tends to decline relative to total income,

but what to conclude from this fact is less clear. As production has become more capitalistic, replacement has become the preponderant part of gross capital formation. The TNEC testimony showing that a number of our large corporations have relied increasingly upon depreciation allowances for capital improvement was corroborative of this trend. Kuznets has shown that in this country in 1919-35 replacement constituted 68 per cent (1929 prices) and new investment 32 per cent of the yearly average volume of gross capital formation. Leaving out public agencies his figures were 81 per cent replacement and 19 per cent net capital formation. Colin Clark has shown that the yearly additions to British home capital have been declining since 1875. His figures of net investment as a percentage of national income show a decline from 12.2 per cent in 1907 to 8.1 per cent in 1924, 7.2 per cent in 1929, and 6.9 per cent in 1935. . . .

Economic progress involves an increase of income not only in relation to investment but also in relation to employment. In much of the monetary analysis of the past twenty years, income, output, and employment have been treated as counterparts which respond equally to changes in saving and investment. This may have had some advantages for short-run analysis, though it has led to much mechanical thinking in which employment has been regarded as an economic end in itself regardless of its character. It is the logical result of the savings-investment analysis that full employment should be the goal of fiscal policy. But the goal of economic progress is income, and the two do not have a fixed relation.

The rise of income relative to employment through the advance of technology has been one of the great economic phenomena of our times. It raises questions which thus far monetary and fiscal theory have refused to face. But we are making some progress. We have begun to stop identifying underemployment with depression. Now that under the stimulus of the defense program and British war buying national income has risen substantially above any previous level while some seven million workers are still unemployed, it is beginning to seem inappropriate to describe a state of less than full employment as "stagnation," even in a technical monetary sense. But the lesson drawn is that we must spend more rather than less, for full employment remains the goal of fiscal policy.

Last summer Keynes published in the *New Republic* a most significant article in which he referred to the failure of deficit spending to produce "anything like full employment in the United States." He ascribed this failure to the "gigantic



powers of production" of a modern industrial economy. To quote:

"Coupled with institutional factors which tend to encourage accumulation and retard the growth of consumption when incomes increase, this means that an unprecedented output has to be reached before a state of full employment can be approached. The full industrial and agricultural capacity of the United States may well exceed 1929 by as much as, or even more than, 1929 exceeded 1914. . . . The conclusion is that at all recent times investment (and public) expenditure has been on a scale which was hopelessly inadequate to the problem. . . . It appears to be politically impossible for a capitalistic democracy to organize expenditure on the scale necessary to make the grand experiment which would prove my case . . . except in war conditions."

On similar reasoning, a number of American economists have recently said that our mistake in the thirties was in having annual deficits of some three billion dollars; they should have been ten to fifteen billions. My own view is that such a "grand experiment," besides being politically impossible in a democracy in peacetime and besides, incidentally, probably destroying democracy if it were tried, would not "prove the case," because the case as stated misconceives the nature of the problem. We have been accustomed to think of technological change as a temporary phenomenon temporarily displacing labor but through falling costs and widening market creating full employment once the state of technology has settled down. But the great question raised by modern experience is whether technology does settle down. Technological advance was very great during the twenties, but Keynes says his public spending experiment failed because technological progress was much greater in the thirties. How ironical it would be if the ten-billions-a-year experiment should fail during the forties for the same reason.

I suggest that one important feature of an advanced capitalistic economy is that human labor becomes progressively the less efficient instrument of production compared with the alternative methods, which as I have already said, depend progressively less upon new investment in the quantitative sense and more upon new technique. The economic function of the producer is not to employ labor but to produce goods. At every step he faces anew the question whether to use more men or better machines and processes. Even in the present defense program the purpose will be to get maximum output rather than full employment. Even in England today there is complaint of un-

employment. Even if we should attain full employment during a great burst of activity when we are taxing our economic capacity to the utmost and in our urgency cannot confine ourselves to the most efficient methods, it would not be permanent, even if that level of output should continue.

In monetary and fiscal theory unemployment is taken as a sign of waste. If it is pointed out that we can and in fact have increased income to new high levels without removing unemployment, the answer invariably given is that with full employment we would have still higher income. Keynes in the article I have quoted said: "The wealth producing capacity which is now going to waste in the United States is so far beyond our powers of measurement that it is useless to hazard a figure for it." But if we look at the problem as one in economics rather than simple arithmetic this is not so clear. There are always unutilized resources, material as well as human. Indeed, if this were the only question, why stop with the resources at hand? Why not count our unborn children among the unemployed? There is no other criterion of usability than the question does it pay in all the given circumstances. The question of waste of resources through unemployment can only be put to the test by increasing economically desirable output and if in such a test we find ourselves resorting to other means of production than human labor, the problem, whatever else it may be, is not one of economic waste.

I am not suggesting that unemployment is not our most serious human problem or that it is not the duty of government to provide for unemployment. The implications of what I have said for fiscal policy I will consider later.

A third important feature of a mature or advanced economy has been the growth of durable consumers goods. Terborgh has presented some striking figures for the United States from 1919 to 1939. Of total expenditures (private and public) on all durable goods, producers and consumers, of 380 billion dollars, consumers durable goods amounted to 196 billions. The largest category—household goods—amounted to 91.3 billions or 24 per cent of the total. Residential housing amounted to 52.4 billions or 13.8 per cent. Manufacturing and mining expenditures for plant and equipment were 13.3 per cent, government expenditures for construction 12.1 per cent, passenger automobiles 11.8 per cent, and electric power and railroad expenditures combined 5.6 per cent.

Among the modern institutional changes which monetary and fiscal theorists have cited as preventing full employment have been those "retard-



ing the growth of consumption," to quote again from Keynes's article. This is the other side of the oversavings thesis, but I have never seen the evidence to support it. I agree that a less unequal distribution of income would probably increase consumption, and that this is a legitimate concern of fiscal policy. I agree also that heavy taxes on consumption are undesirable when national income is depressed, or when there is less than full utilization of *economic* capacity (which is not to be confused with employment), though we cannot assume that there are not limits to taxes on higher and middle incomes beyond which not only consumption but economically desirable saving and investment will be impaired.

But to favor such policies is not to concede that in fact institutional changes have retarded the growth of consumption relative to income. It is doubtful whether in the more advanced countries the inequality of incomes has become greater during the last fifty years. Colin Clark in his latest book<sup>1</sup> presents evidence that consumption has been rising relative to income in Great Britain, Germany, and the United States. Certainly the growth of durable consumers goods, as Terborgh's figures indicate, has been one of the great phenomena of our times. It is a chief reason why I believe we have made too much of investment both in cyclical and in secular analysis. It bears also on the question of "outlets for saving," for while these are consumers goods their financing bears the same kind of relation to accumulated saving, and to credit from the banking system, as producers capital goods. Their bearing upon the multiplier I discussed in an earlier section. Since the first world war durable consumers goods have played a major role in economic fluctuations; nor is it possible to prove either from the data or by general reasoning that this type of expenditure has been the "passive" factor.

## V

My purpose in this paper has not been to present a program for fiscal policy but to give some of my reflections about its theoretical foundations. I must, however, in concluding try to point out briefly some of the implications of what I have said for such a program.

The case for permanent deficits as compensation for oversaving and underinvestment tendencies seems to me unproved and based in considerable measure upon misconceptions of the nature and effects of the secular economic changes which are observable. I believe, further, and I think it follows from the logic, that if deficit spending were

permanently carried on as compensation for tendencies toward contraction which would otherwise exist in the economy, and especially if we should take as our goal full employment, it would either eventually break down or would entirely transform our democratic, private capitalistic system; for its cost would become a constantly increasing fraction of the national income. I cannot stop to consider the banking and monetary aspects of such a policy, which are recognized by all students to be difficult. In so far as it is desirable to modify the flow of income it can be better done by taxation than by deficit spending. But the economic effects of different kinds of taxes constitute an intricate and difficult field which is even more in the pioneer stage today than deficit spending. We cannot proceed very fast or very far on a general formula about saving and consumption; and if we are seriously concerned about tendencies toward decline of investment, we must have due regard for the effects of tax measures upon risky investment. As a preliminary to a good tax structure, moreover, we must some day have a thorough overhauling of state and local in relation to federal taxation.

What I said earlier about the relation of income to employment points to the need for a permanent relief organization within a balanced budget. It is closely related also to old age security. One way to meet the problem may be by shortening the average work-span of the employed. Other questions are the flexibility of wages and the mobility of labor and enterprise. Another approach is through education for employment to help solve the problem of labor shortages existing side by side with unemployment. But I must leave this whole problem to others who know more about it. I can see no easy solution. Certainly I do not see it through deficit spending. As stated earlier it would clarify our thinking about fiscal policy to drop the criterion of full employment and think in terms of income.

It does not follow from what I have said about permanent deficits that governments should do no long-run borrowing for peacetime purposes. It has been desirable in the past, in this and many other countries, to do some of our investing collectively; and a moderate public works program for productive purposes, adjusted as much as possible to business cycle changes, is not inconsistent with the views I have expressed. There is a vast difference, both conceptually and quantitatively, between a policy of public betterment, based on what a country needs and can afford, and that of spending to get long-run full employment.

In the business cycle deficit spending can be of

<sup>1</sup> *The Conditions of Economic Progress.*

real assistance. For this purpose a large budget has advantages, for the automatic changes in it in response to economic changes can be large enough to have considerable effect, especially if we refrain on the decline from imposing new taxes or raising tax rates. Relief and unemployment insurance expenditures would add further flexibility and would probably have some pump-priming effect under conditions favorable to business confidence. One important requirement, I believe, would be to taper the deficits. It is in the tapering that the business cycle use of deficit spending comes most in conflict with the long-run view, for it involves a presumption that apart from the cycle the economy can be self-sustaining. Those who are convinced there are deeper seated contractive tendencies will want to spend sooner and

will resist tapering on recovery. It has been my belief that if we could have begun to taper the deficits in 1935 when recovery was well under way, and could have avoided the labor difficulties of 1936-37, we might have avoided the new depression and carried the recovery to higher levels before the outbreak of the war. . . .

None of the comments I have made in this paper suggests that we should discard compensatory fiscal policy. On the contrary, nothing seems to me more important than that we should continue in the light of accumulating experience to study how to fit fiscal policy into a more rounded economic program. In so doing we must consider how fiscal policy can be used to preserve and improve rather than to destroy our present economic system and our democratic institutions.

# THE UNITED STATES AND THE WORLD

## FOREIGN TRADE

THE FOREIGN TRADE of the United States, which had increased from more than two billions at the turn of the century to more than eight billions in 1929, dropped sharply with the depression and did not revive to any marked degree thereafter. This decline in foreign trade helped prolong the depression, for upon the 10 percent of the country's total production which was exported depended the welfare of such industries as tobacco, cotton, copper, fruit, and light machinery. Those last went to the less developed areas of the world, thus changing the pattern of American trade interests. Once, agricultural staples had paid for necessary imports of European manufactured goods, now exports of American manufactures were paying for industrial raw materials—nickel, tin, manganese, bauxite, woodpulp, crude rubber—from Asia and from the other countries of the Western Hemisphere.

The contraction of foreign trade not only injured many important American industries but also deepened the world depression. Consequently, the Roosevelt Administration declared a revival of world trade to be one of its objectives. A World Economic Conference assembled in 1933 only to break up because the United States refused to engage in a joint program of currency stabilization and to allow its agriculture to meet the chances of the world market. Yet, at the same time, Secretary of State Hull was trying to break down tariff barriers and bars to capital expansion, first by the elimination of hostile influences within the administration and then by the reciprocal trade program which is discussed in Raymond L.

Buell's (1896-1946) pamphlet, *The Hull Trade Program and the American System* (New York, 1938).

The Hull program, Buell declares, is an attempt to strike at the dangers to both peace and prosperity by a gradual reduction of trade barriers that have reached new heights since Versailles, partly as a result of United States policy. The Trade Agreements Act of 1934 is an effort to redeem that error by removing the drafting of tariffs from the arena of legislative log-rolling. On the other hand, it recognizes reality and does not seek to revive the "free trade" of the mid-nineteenth century. Instead, the law of 1934, which Congress continued to renew for three-year periods, authorizes the President to negotiate agreements with foreign countries by which tariff rates may be reduced by as much as 50 percent, in return for whatever concessions could be obtained. The consent of Congress was not necessary for the conclusion of such agreements, thus clearing away a rock upon which previous reciprocity programs had foundered. About 17 reciprocal trade agreements were concluded between 1934 and 1938, many of them with agricultural countries producing noncompetitive goods; although arrangements were completed with both France and Czechoslovakia and negotiations were begun with Great Britain as well. The outbreak of World War II of course put an end to further negotiations with the great industrial nations of the world.

The Buell pamphlet appeared in the Foreign Policy Association World Affairs Pamphlet Series (New York, 1938).

*The Hull Trade Program and the American System*

BY RAYMOND L. BUELL

## V. THE TRADE AGREEMENTS PROGRAM

IN THE LIGHT of the anti-deflation course adopted when the Roosevelt Administration went into office, unilateral reduction of the tariff by Congress was out of the picture. In view of the huge surpluses of commodities accumulated in other parts of the world, and the existence of foreign export controls which intensified the danger of dumping, it was feared that a unilateral lowering of the tariff would only increase the disruption of the American economic system without any assurance of immediate world recovery. Largely as a result of Secretary Hull's influence, however, Congress enacted in June 1934 the Reciprocal Tariff Act. This Act authorized the President to negotiate, over a three-year period, trade agreements with foreign countries altering our tariffs by not more than 50%, provided he did not put on or take off from the free list any item, and provided also that the benefits of such reductions be extended to all countries not discriminating against the United States. The Act was renewed by Congress in 1937 for three more years. . . .

*Importance of the Export Market.* The immediate purpose of the Hull trade policy is to restore the export market for American industry and agriculture. America possesses great natural advantages in mass-production industry and in agriculture, and before the depression these advantages were exploited on the international market. The loss of this market created our most serious maladjustments at home, although less than 10% of our national production normally enters foreign trade. If this 10% could be segregated, it might be sacrificed without disastrous consequences to the country as a whole. But it enters into the fabric of nearly every enterprise and every section of the country. The destruction of imports would prevent the manufacture of our automobiles, radios, or telephones, while the loss of the export market would in many cases convert profits into losses. When exports slump, the general economy declines. A farmer in the Middle West or the South cannot buy the output of American factories if his income has vanished. On the other hand, the cotton farmer in the South, having lost his export market, inevitably turns to corn and dairying, at the expense of the farmer of the Middle West.

Thus the loss of the export market cannot be

isolated or localized; it poisons the entire system. Present maladjustments cannot be removed by drastic deflation, because the cost is too great and the system too inflexible. They can only be removed by increased government intervention in private enterprise, or by a general revival of the world market. The Hull trade program does not assume that the American economy can or should return to the 1929 pattern. It realizes that adjustments of both an economic and social nature must continually be made; but it believes that by removing the rigidities in our present system due to excessive protectionism, the shock of the changes may be cushioned and the principle of competitive enterprise maintained.

Nor is it a forlorn hope to expect to maintain foreign markets in an age when machinery can be established in countries where labor costs are cheaper than in the United States. Even if foreign countries eventually install American machinery, they will suffer from three handicaps: first, their workers will probably not be as adept in operating the machinery as are skilled American mechanics—large American concerns with branch factories abroad testify to the relative inefficiency of the foreign worker. Second, foreign countries cannot offer nearly as large a market as the United States, and consequently the transplanted industry will not be able to achieve the low unit costs essential for success. Finally, the research resources of American industries, if exploited with initiative and vigor, will constantly open up new processes which can be profitably exploited in this country long before they can be copied abroad. For these reasons, together with the fact that—despite the rise of machinery—countries still retain differences in resources and aptitudes, the increase in machine-production is not likely to cause any decline in international trade, other things being equal. The nature of such trade may change; but it will probably take the form of the exchange of highly specialized manufactures having greater value rather than trade in bulky raw materials.

In order to sell goods abroad, it is necessary for America to buy. This means that if we are to ask foreign countries to reduce their trade barriers to the advantage of our goods, and if we expect them to pay their debts, we must lower our tariffs. The advantages of adopting a moderate tariff policy in contrast to excessive protectionism are evident not only from the point of view of the export in-

terests, but from the standard of the nation's general economy. . . .

*The Tariff and American Labor.* Admittedly there are marked wage differences in various parts of the world and it is possible that in certain cases a lower wage gives a foreigner a competitive advantage over an American producer. But this argument is weakened by the fact that usually it is advanced most vociferously by employers who show solicitude for labor only when a tariff issue arises.

If the truth is to be arrived at, it is important to ascertain not the difference in wage rates between different countries, but the difference in wage costs. The United States could not be the world's largest exporter, competing with cheap labor all over the world, if differences in wage rates were decisive. The reason we can compete, and the reason wages in America are high, is not due to the protective tariff but to our superior efficiency. An American coal-miner produces five tons of coal a day, in comparison with one ton produced by a French miner. An American textile worker produces 400 yards of woolen cloth a week, in comparison with 212 in England. It is also significant that in 36 typical export industries wages are higher than in 36 typical protected industries. The reason is superior efficiency.

A policy of excessive protectionism means that foreigners cannot buy more of our exports and that America cannot fully develop the branches of industry and agriculture in which it has an advantage. It means that our capital and labor are diverted, in certain cases, into comparatively unproductive enterprise. There may be cases where foreign workers are so poorly paid that, despite the superior efficiency of American industry, foreign goods can take the market away from American concerns. But such cases should be ascertained by investigation. When it is established that for this reason an American industry cannot exist, the further question should be asked whether the industry and the number of workers employed are important enough to justify a tax burden on the whole country. For it must be remembered that by its nature a tariff can only help a minority at the expense of the majority. . . .

*The Tariff and Vested Interests.* This leads us to the fact that the withdrawal of tariff protection may injure capital and labor employed in protected industry. These vested interests cannot accept the argument that the country would be better off as a result of their sacrifice; whatever the general benefit, few individuals like to commit suicide. In theory, those thrown out of work by tariff reductions would be re-absorbed in more

productive enterprise; but, in fact, they may remain unemployed for years. Admitting that export trade will increase as a result of tariff reduction, a factory from which protection is withdrawn may find great difficulty in making the changes necessary for the manufacture of a different type of goods; and a Lowell textile worker, displaced by tariff reductions, will not find it easy to go to Detroit, nor will he necessarily have the skill to become an automobile worker.

Admitting the injury caused by such changes, it must be recognized that such readjustments of capital and labor are an inherent part of the capitalist system, wholly apart from the tariff. Indeed, the extent to which tariff reduction may intensify these readjustments can easily be exaggerated. The Czechoslovak agreement, described below, makes possible a small increase in shoe exports to the United States; but the amount is not large enough to close down any American shoe factory. On the other hand this agreement will increase the export of American automobiles, lard and apples to Czechoslovakia and put a considerable number of men back to work on our farms and in our factories. With their increased purchasing power these men will buy more American goods than if they were unemployed. Thus tariff reduction, if properly controlled, helps to build up the home market and bring about a more healthy economy.

Moreover, one reason why Americans have been turning to substitutes for woolen textiles is because of the high duty on wool and woolen textiles. Reduced prices, brought about by a reduction in these duties, should increase the consumption of woollens. The extent to which a reduction in the duty on raw wool would injure the American wool-grower is problematical. The small sheep-raiser certainly would not be injured because he now loses more than he gains from the tariff. In other cases, duty reductions would merely force industries to improve their technological and financial organization, which tends to become inefficient in the absence of foreign competition. Instead of putting whole industries into bankruptcy, tariff reduction would merely injure the inefficient marginal producer. . . .

The use of the tariff is one of the most effective means of restoring a competitive economy. And the shocks caused by the tariff instrument can be lessened in at least one of two ways. The first is to pay compensation to the capital and labor dislocated by tariff until they find employment elsewhere. While to a certain extent this is already being done for workers through social insurance and the PWA, any system of outright subsidy in-

volves grave administrative and political difficulties. The second is to reduce duties very slowly with respect to highly protected industries.

*Reductions Achieved.* The latter method is being applied by the Hull trade program. Here tariff reductions have been cautiously made only after careful study. Out of about 3,200 tariff commodities, duties have been reduced on only 411 by the Hull trade program during three and one-half years. About half of these rates are lower now than those which prevailed under the 1922 tariff; but only 68 are lower than the duties prescribed by the 1913 tariff. On an average, it would seem that the rates established by the trade agreements continue protection as great as that offered under the 1922 Act. Moreover, 272 of the commodities on which rates have been reduced are non-competitive, since we imported less than \$100,000 worth of each in 1936. . . .

In short, while the Hull trade program has made progress, it has reduced duties only moderately and has concentrated on non-competitive imports, leaving three-fourths of the Smoot-Hawley tariff untouched so far. Meanwhile, highly protected industries have been warned not to increase investments. It is possible to regard the Hull program as a continuing process under which, once one set of trade agreements is concluded, the economy may be re-examined with a view to determining what further steps should be taken slowly to curtail heavily protected, inefficient enterprises in favor of the revival of exports. . . .

## VI. ACHIEVEMENTS

Between 1934 and March 1938 Secretary Hull made trade agreements with 17 different countries, each of which runs for three years. The program started out conservatively by making agreements with tropical or semi-tropical countries, imports from which were already to a large extent on a free basis. Thus agreements were made with Brazil, Haiti, Colombia, Honduras, Nicaragua, Guatemala and El Salvador.

In most of these agreements the United States agreed to maintain existing duties or keep on the free list many imports. For example, in the agreement of February 1935 with Brazil—our second-best South American customer—the United States agreed to keep 91% of the imports from this country on the free list and to reduce duties on 2.5%. Thus we lowered the duty by one-half on manganese ore, Brazil nuts and castor beans. In return, Brazil agreed to reduce duties on 28 tariff items affecting imports coming largely from the United States. These imports include automobiles, various kinds of machinery, fresh fruit and cereal.

Our agreements with Cuba and Canada stand in a special class. Since 1902 the United States had given Cuba a 20% reduction in our ordinary duties; and, following the repeal of the Platt Amendment, we made a new reciprocity agreement in 1934 continuing the same principle of exclusive preference to Cuba. This agreement lowered the sugar duty, subject to the quota system under which the amount of Cuban sugar entering the United States is less than two million tons. It also lowered duties on tobacco, rum and vegetables during the winter season. Cuba, in return, made sweeping reductions in the duty on American lard, wheat flour, potatoes, machinery, automobiles and textiles.

The most important of all agreements made so far is that with Canada, our second largest customer. In the agreement of November 1935 the United States undertook not to impose duties on wood pulp and related products, certain types of lumber, lobsters, certain fruits, nickel and other commodities, which cover about 45% of the total purchases made from Canada in 1929. Moreover, this country reduced duties on 50 tariff items, including certain types of lumber, cheddar cheese, apples, hay, maple sugar, live poultry, horses, hali-but, whiskey, leather and mineral products. In addition, tariffs were reduced on limited quotas of imports, such as large cattle, calves, dairy cows, cream and seed potatoes. Imports beyond the specified limits in these categories pay full duty. Altogether, the United States lowered duties on about 60% of the dutiable imports of which Canada was the principal source of supply in 1929. In return, Canada made direct tariff reductions on almost one-third of the dutiable imports from the United States, which included machinery and fresh and canned vegetables; and it extended most-favored-nation treatment to the United States for all its imports, as a result of which duties were lowered on 767 Canadian tariff items.

The real test of the Hull trade program is its ability to conclude arrangements with the industrialized countries of Europe which still consume by far the larger part of the American exports. A signal achievement in this respect was the conclusion of the agreement with France in May 1936. This agreement settled a century-old quarrel over commercial policy, in addition to promoting trade between the two countries. Thus France agreed to increase certain quotas of goods imported from the United States, as well as to reduce duties and give other advantages to us under 4,330 items in its tariff. In particular, France agreed to increase the quotas imported of American timber, metal machinery, radio apparatus, typewriters,

automobiles, fresh apples and pears. The United States, in return, lowered duties on 71 items, such as lace, Roquefort cheese, champagne and other distinctly French products.

The first agreement to arouse the opposition of a major American industry was that signed on March 7, 1938 with Czechoslovakia—the home of the famous Bata shoe. Although the American industry produced more shoes in 1936–1937 than before the depression, many of its representatives fiercely protested any tariff reduction to the benefit of Czechs. The State Department met this situation by lowering the duty on certain types of shoes, but by providing that when imports exceeded 1.25% of domestic production the United States might raise the tariff. During 1937 the United States imported leather shoes amounting to only 4,295,000 pairs—a figure constituting about 1% of the domestic production. Under the new arrangement, Czechoslovakia may increase its exports by about 600,000 pairs. But it is unlikely that this increase will take place in the cheap, cemented shoe, because the duty on this particular type has not been reduced. Thus Czechoslovakia is given increased purchasing power to buy our goods; but the American shoe industry is virtually guaranteed about 99% of the domestic market.

In return, Czechoslovakia agrees to modify its import-permit and exchange control régime to the advantage of American exporters. It also grants tariff benefits to 76.7% of its imports from the United States, which should increase our sales of apples, lard, prunes, automobiles and other products. On the other hand, we grant tariff benefits on 63 items of imports into this country. While the United States receives most-favored-nation treatment from Czechoslovakia, we have agreed that this right shall not apply to efforts at closer economic cooperation among Danubian countries.

The Czech agreement represents the first dent on the complicated trade controls in Central Europe. Nevertheless, although the United States has made agreements with European countries, such as Belgium, the Netherlands, Sweden and Switzerland, it has not yet concluded any agreement with the large industrialized powers, such as Britain, Germany, Italy or Japan—which together took about 32% of American exports in 1929.

In 1937 the foreign trade of the United States showed increases totaling \$6,307 million, in comparison with \$9,640 million in 1929, and today the United States is the world's largest exporter. Trade agreements now apply to nearly 40% of our foreign trade. What is most significant is that our

exports to trade-agreement countries increased 41% during 1937, while exports to countries with which we do not yet have agreements increased only 34%. Nevertheless, important as were our world trade gains during 1937, they cannot necessarily be regarded as permanent. For part of these gains are due to world rearmament as well as to the crop failure in many foreign countries, and the gains are in devalued dollars. The task, therefore, of leveling major trade barriers still remains. . . .

## VII. HOW A TRADE AGREEMENT IS MADE

Apart from the general opposition to any tariff reduction, there have been two main criticisms directed against the Hull trade program. The first is that the trade agreements are made by unconstitutional and arbitrary "star chamber" procedure.

In the Trade Agreements Act, Congress delegated the power to make agreements to the President, and an agreement enters into effect without being approved by the Senate or Congress. In this respect Congress has delegated legislative power to the President, as it did in the Acts of 1922 and 1930, when it authorized him to reduce tariffs in order to equalize costs of production. The latter grant of power was upheld by the Supreme Court and, particularly in view of a recent decision of the Court upholding the most widespread discretion on the part of the President relative to foreign policy, there is little doubt but that the Supreme Court would uphold the validity of the Trade Agreements Act. It was the necessity of placing such agreements before Congress which prevented the success of the negotiations under the Act of 1897; and Senatorial "courtesy" and log-rolling are still so strong that the Hull program would probably be defeated even if agreements were merely laid on the table of either house for a given period before entering into effect. Congress has delegated the fixing of railroad rates to a commission; the same reasoning justifies the delegation of the tariff power.

In lowering duties under the 1934 Act, the President does not act arbitrarily. The responsibility for negotiating trade agreements rests with the State Department, assisted by a series of interdepartmental committees, containing representatives not only of the State Department but also of the Tariff Commission, the Department of Commerce, the Department of Agriculture and the Treasury Department. The most important is the Trade Agreements Committee, consisting of about 60 sub-committees, some dealing with countries, some with commodities, and some with special

problems. A country committee investigates with great care the exports and imports of the United States with the country concerned, for the purpose of preparing recommendations as to how trade might be improved. Usually several months of study are spent on the question, following which the recommendations of the country committee, assisted by the commodity committee, are reviewed by the Trade Agreements Committee. They are then sent to the Secretary of State and the President for approval. Once we decide what concessions we can make and what we wish in return, negotiations with the foreign government begin. . . .

#### VIII. DO WE GIVE MORE THAN WE RECEIVE?

A second criticism of the Hull trade program relates to most-favored-nation treatment. According to the Trade Agreements Act, any reduction in duties in an agreement shall be extended automatically to all other foreign countries which do not discriminate against the United States. If the United States lowers the duty on steel in a treaty with Belgium, the reduction is automatically extended to the same kind of steel from all other countries. Critics insist that under this system, the United States gives concessions to 50 nations, while receiving concessions from one nation only in return. Consequently, they argue that the trade agreements program will swamp America with imports and that it is "selling the country down the river."

Charles Evans Hughes, who proclaimed the most-favored-nation policy in 1923 when Secretary of State, and Secretary Cordell Hull, who favors the policy today, do not accept such reasoning. Both believe that the United States has far more to gain than to lose from the non-discriminatory principle. For in refraining from erecting discriminating tariffs, the United States is in a position to demand that most-favored-nation treatment be extended to all American exports. For example, following the signature of a most-favored-nation agreement with the United States, Belgium made an agreement with France lowering the duty on French automobiles. As a result of our previous most-favored-nation agreement, Belgium automatically extended the reduction to automobiles coming from the United States. Had the United States followed the principle of exclusive bargaining, it would not have received the benefit of this treaty. To protect the position of American automobile exports in Belgium, it would have had to carry on negotiations anew. Thus,

most-favored-nation treatment protects American export trade.

A further danger in abandoning most-favored-nation treatment is that the opposite principle of bilateral bargaining often leads to efforts to balance exports and imports between two countries. And trade cannot be balanced in this way without reducing the total volume of world trade. For example, the United States sells much more to Britain than it buys; but we buy much more from Brazil than we sell. Brazil, on the other hand, buys more from Britain than it sells. Under the system of "triangular trade," Britain pays debts to us by the exchange received from Brazil; and we use this exchange to pay what we owe Brazil. In 1928, 37% of the total foreign trade of the United States was done on a triangular basis. Now this triangular trade might be destroyed if we abandoned the most-favored-nation principle in favor of bilateral exclusive bargaining. . . .

The reduction of tariffs, reviving an orderly and mutually advantageous international trade means a healthy economy, and a rising national income. That increasing imports are a necessary and a desirable part of a rising national income is shown by the fact that in 1929 the United States imported more goods than at any time since 1920. We must choose between bottling ourselves up in a system of nationalistic monopolies in which pressure groups scramble for more and more of less and less, and removing those maladjustments in our national life which are due to excessive protectionism.

The Hull trade program represents an effort to restore a degree of freedom to the world economy and to loosen the fetters chaining private initiative and the investment of capital. This program is not inconsistent with well-considered social reforms, or with government activity to lessen the fluctuations of the business cycle, or to control other aspects of economic life. The program is none the less based on the belief that wealth must be produced before it can be distributed, and that competitive private enterprise is the best means of producing wealth while maintaining principles of democracy. It believes that the trend toward a new world war and depression can be checked only if nations accept the principle of economic interdependence. The program does not prevent the cooperation of the United States with dictatorial economies. But, as far as the United States is concerned, the program is a symbol around which those who believe in free enterprise, democracy and peace can and should rally.



## *CONTINENTALISM VERSUS INTERNATIONALISM*

ALL THROUGH the second half of the nineteen thirties the Administration's concern with domestic problems tended to be diverted; it was impossible to disregard foreign affairs. The peacekeeping devices of the previous decade were disintegrating like so many cobwebs as tension was put on them. The principal nations of the world had all renounced war as an instrument of national policy and, except for the United States and Great Britain, in some degree all of them were in a state of war—psychologically if not physically. First of the webs to snap was the Nine-Power Treaty guaranteeing the integrity of China. Japan invaded Manchuria in 1931 and set up the puppet state of Manchukuo the next year. The other signatories of the Nine-Power Treaty and the Kellogg-Briand Pact deplored the events in Asia; but they would not back the United States's protest with anything more effective than partial refusal to recognize the new state. Next went the obligations of the signatories of the Covenant of the League of Nations with the invasion by Fascist Italy of Ethiopia and the breakdown of economic sanctions.

By 1937, the tempo of aggression had quickened. Civil war had broken out in Spain (with Germany and Italy openly intervening on Franco's side) and Japan had landed troops on the China mainland. Hitler had reoccupied and remilitarized the Rhineland; the Anti-Comintern Pact had been signed; and a general conflagration once more threatened to sweep the world. It was in such an atmosphere that President Roosevelt, in his trip across the continent, halted at Chicago and on October 5, 1937, delivered his unexpected and startling "quarantine" speech. Until then, he had used his powers under the Neutrality Acts (see below) in what seemed an inconsistent fashion: he had invoked them to deny arms to Italy in its attack on Ethiopia; he had also invoked them to deny munitions to the legal and recognized govern-

ment of Spain in its struggle against a rebellion supported by Germans and Italians. And, so far as the United States was concerned, no war existed in China, though the State Department sent notes of protest and the United States concurred in the League Assembly's condemnation of Japanese bombing of open Chinese towns.

In his speech, after noting "the present reign of terror and international lawlessness," the President observed that if the spirit of destruction continued and spread, the Western Hemisphere would be no safer than the Eastern. The time had come for the peace-loving nations to take concerted action against violation of treaty obligations and the dictates of humanity. If international anarchy prevailed, every nation must be drawn into conflict, since not even the protection which the United States had given itself would be effective in a "world of disorder in which confidence and security have broken down." The aggressors must be "quarantined."

The American people saw the advance of fascism uneasily, but the President's address did not alter the conviction of most of them that European affairs were no concern of theirs. Most Americans believed in neutrality. The Nye Committee's revelations and the temper of the depression years had helped write our withdrawal from world affairs into a formal program. In 1934, Congress passed the Johnson Debt Default Act, forbidding the sale in the United States of the securities of governments defaulting in the payment of their obligations to the United States. When Italy attacked Ethiopia in 1935, Congress by joint resolution—the so-called first Neutrality Act—lay an embargo on the export of arms in wartime and empowered the President to prohibit Americans from sailing on belligerents' vessels except at their own risk. In 1936, the second Neutrality Act, also a joint resolution, ordered the President to apply an arms embargo whenever

he found that a state of war existed, and extended the embargo to include loans and securities sales as well as the export of munitions. Finally, in the May before the President's address, a more detailed joint resolution—the third Neutrality Act—prescribed a program designed to keep the United States out of war. Since insistence on our neutral right to trade had helped bring the United States into the Napoleonic conflict and the first World War, we would abandon those claims. Accordingly, the export of arms and ammunition to belligerents was forbidden. Further, belligerents were not to sell securities or solicit contributions in the United States. American ships were not to be armed or to carry implements of war to belligerents, nor were Americans to travel on their vessels. The President was given discretionary authority to stop American ships from transporting any commodities to a belligerent; to prevent the export of any goods until title had been taken by a belligerent (this was the so-called “cash and carry” provision); and to deny the use of our ports as supply bases to belligerent war vessels or foreign submarines and armed merchantmen.

But neutrality was not to work—as the President had anticipated. In 1938 the Munich crisis, instead of improving the European situation, made it more serious. In March, 1939, Hitler seized the rest of Czechoslovakia; less than a week later, Memel was occupied. In April, Mussolini invaded Albania; and in September all of Europe's armies began marching when the Nazis crossed the Polish border. World War II had begun. Another Neutrality Act, in November, 1939, was written. It was somewhat more explicit than the others (although the arms embargo was dropped) and like the others it sought desperately to keep us out of the war by openly abandoning our neutral rights—and particularly the doctrine of the freedom of the seas.

Amid such alarms, Americans debated the role of the United States. Among the most important advocates of a policy of nonintervention was Charles A. Beard (1874– ), the

dean of American historians, who, in his *A Foreign Policy for America* (New York, 1940), sought to chart the course we were to steer. In his book, Beard examines and dismisses internationalism and extreme isolationism in their turns. Past experience has shown that American meddling in the affairs of Europe and Asia brings neither advantage to us nor peace to the outer world. In the long run, struggle for a share in world trade is not worth the cost, for that trade depends upon the export of capital, and naval and military establishments must be supported to protect investments. The United States would do better to embark upon a policy of “Continentalism,” extending our interests over the Western Hemisphere (which can supply all our industrial raw materials) and avoiding entanglement in the schemes of foreign imperialisms. This program will enable the United States to preserve peace and safeguard its own political and civil liberties at home.

At the beginning of 1939, Roosevelt had urged the repeal of the arms embargo only to be countered by Senator Borah's claim that he had positive knowledge there would be no war in the immediate future. Borah was dead by September, 1939. In November, the President finally had his way; but it was not until May, 1940, that the United States began throwing the whole neutrality program overboard. By June, 1940, it had been arranged for the United States to sell surplus war material to replace what the defeated British had left behind at Dunkerque. In September, 1940, shortly after the first peacetime draft had finally become law, the United States concluded the arrangement by which Britain gave her Western Hemisphere naval bases in return for fifty over-age destroyers. By the end of 1940, the United States was as thoroughly in World War II as was possible without actual military participation. The munitions industry was being increased; arms production was growing; the National Guard had been called into federal

service and an army of drafted men was beginning to be trained.

The development of this policy is elucidated and justified in Roosevelt's annual message to Congress on January 6, 1941. Though war has not actually touched this continent, the United States has never stood in greater danger. For never before has any enemy succeeded in abolishing freedom in so many nations in so brief a time. A triumphant dictator might allow the United States a temporary respite, but once he had organized his victor, he must attack; and then the United States must face him without allies.

At this unique and terrible moment, domestic issues must be sunk in the greater issue of meeting the threat from beyond the seas. The United States must demonstrate its readiness to defend itself, to keep war from this hemisphere, but not to acquiesce in a peace dictated by the aggressors. Armament production must be increased, therefore, the army and navy must speed their training. And Congress must provide the funds and accept the need

for secrecy which is required to make such a program effective. The United States must become the arsenal of the democracies, providing them with materials which they, in their capacity, will return after the end of hostilities.

And while this nation expects the complete cooperation of all its people in such a program, it will not stop thinking about the causes that plunged the world into war. Congress must maintain the bases of democracy on the broadest footing. For the United States looks forward to a world founded upon four freedoms. Freedom of speech and expression; freedom of religion; freedom from want; and freedom from fear. That is the moral order of democracy which stands against the "new order" of fascism.

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## *A Foreign Policy for America*

BY CHARLES A. BEARD

### V. PERSISTENCE OF CONTINENTAL AMERICANISM

... TWICE IN AMERICAN HISTORY the governing élite had turned the American nation away from its continental center of gravity into world adventures, ostensibly in a search for relations with the other countries or regions that would yield prosperity for American industry and a flowering of American prestige. First, in 1898; second, in 1917. But each time the main body of the people had resisted the propulsion, had found delusions in the false promises, and had returned to the continental orbit. Imperialism had failed to bring either profits, glory, or security. Internationalism had been wrecked at Versailles—by the struggle for power under the League of Nations, by the revelations of war propaganda, and by other brutal events which could not be erased from the record.

Again and again the fundamental resolve of the country against imperialism and internationalism had been revealed; in provisions for withdrawing from the Philippine area; in the surrender of

specious rights to engage in trade where great nations were fighting for their lives; in neutrality acts keeping American ships and travelers out of war zones; in the refusal of Congress to transform Guam into a great naval base; in an evident unwillingness to engage in a major war over the petty commerce of China; and in persistent efforts to overcome, by domestic measures, the crisis in domestic economy, without wholesale resort to artificial devices for dumping American "surpluses" abroad, that is, giving them to foreigners.

After all the illusory adventures in policy based on the Cobden-Bright conception of "free international exchange," the American nation confronted, not a growing freedom of that kind, but a steady increase in the number of countries operating on different principles. At best free international exchange had been merely partial; and the tendencies in that direction had been reversed.

Germany, Italy, Russia, and Japan went over to controlled economies of a totalitarian character. France, Great Britain, and other powers turned in

the direction of management and "regimentation." Even if the United States had labored with might and main to force commerce on these countries and widen the channels of its foreign traffic, it could have made little headway against the apparently irresistible determination of other governments—capitalist, fascist, and communist—to grapple with their problems of living by direct action at home. By sheer necessity, American civilization was turned back upon itself.

Slowly, but with increasing force, it was realized that the "foreign outler" doctrines of imperialism and internationalism were illusions. This did not mean that foreign commerce was deprecated or deemed undesirable. Indeed such commerce was fully recognized as desirable within the limits of American needs for products not available at home. But it did mean that the potentials of buying power indispensable to keeping American industry and agriculture running at a high tempo lay right here, in the creation of new wealth at home; that three or four billions of foreign commerce were relatively small as compared with the twenty or thirty billions annually wasted in idle plants, idle labor, and idle resources at home; that the frontiers for the expansion of American enterprise were within this continent, not in the fabled Indies or on the Rhine, the Danube, or the Vistula; that all about us, right here, lay the materials for a magnificent civilization; and that the principal task was the concentration of intelligence, the cultural forces of men and women, upon the problem of putting science, technology, inventive ingenuity, private energies, and public enterprise to work in making real the vision of a civilization that rose before the mind as a goal to be attained by majestic effort on this continent, without recourse to empire or entanglements in the age-long coalitions of Europe and Asia.

This continentalism did not seek to make a "hermit" nation out of America. From the very beginning under the auspices of the early Republic, it never had embraced that impossible conception. It did not deny the obvious fact that American civilization had made use of its European heritages, was a part of western civilization, and had continuous contacts with Occidental and Oriental cultures. It did not deny the obvious fact that wars in Europe and Asia "affect" or "concern" the United States. It did not mean "indifference" to the sufferings of Europe or China (or India or Ethiopia). In truth, in all history, no people ever poured out treasure more generously in aid of human distresses in every quarter of the globe—distresses springing from wars, famines, revolutions, persecutions, and earthquakes.

With reference to such conflicts and sufferings, continentalism merely meant a recognition of the limited nature of American powers to relieve, restore, and maintain life beyond its own sphere of interest and control—a recognition of the hard fact that the United States, either alone or in any coalition, did not possess the power to force peace on Europe and Asia, to assure the establishment of democratic and pacific governments there, or to provide the social and economic underwriting necessary to the perdurance of such governments. In respect of morality continentalists did not deny the existence of responsibilities to other nations and peoples. On the contrary they favored discharging such responsibilities, always with due regard for the physical, economic, and political limits on the powers of the United States and for the solemn obligation of protecting the Republic against misadventures headed in the direction of disaster. If this conception fell short of the selfless sacrifice required by an absolute morality, it could claim worthiness in the presence of other examples set by the family of nations.

Besides forcing a concentration of attention, energy, and intelligence on overcoming the grave economic and social crisis at home and on strengthening American civilization in all its best features, continentalism, strictly construed, meant a return to the correct and restrained diplomacy of an earlier time. The freedom of the people and the press to discuss foreign affairs and favor foreign nations, parties, factions, and causes, within the limits of neutrality laws was accepted as axiomatic. Equally axiomatic, if America was to keep its peace, was the duty of public officials, especially the President and Secretary of State, speaking in the name of the whole nation, to abstain from denouncing and abusing foreign States, good or bad, with which diplomatic relations are maintained and the United States is at peace.

Correct policy likewise commanded such public officials to avoid vain and verbose dissertations on the manners and morals of other countries; to couch protests in the language of dignity; to speak and write as briefly and courteously as possible in necessary dealings with foreign governments; to make no boasts which the army and navy could not enforce with a reasonable prospect of success; to carry on international relations with restraint, and in the subdued style of approved diplomatic usage—speaking softly, keeping the powder dry, withholding wrath except when war is intended as a last resort. Such official conduct would enable the Government of the United States to escape innumerable hatreds abroad, offer its services and

cooperation to troubled peoples with authority on proper occasions, and win respect, even affection and esteem, throughout the earth.

This policy, consistently followed by the United States, would favor, not hinder, the coming of peace to other nations of the world.

### *The Four Freedoms Address*

BY FRANKLIN D. ROOSEVELT

THE ANNUAL MESSAGE TO THE CONGRESS. JANUARY 6, 1941

I ADDRESS YOU, the Members of the Seventy-seventh Congress, at a moment unprecedented in the history of the Union. I use the word "unprecedented," because at no previous time has American security been as seriously threatened from without as it is today.

Since the permanent formation of our Government under the Constitution, in 1789, most of the periods of crisis in our history have related to our domestic affairs. Fortunately, only one of these—the four-year War Between the States—ever threatened our national unity. Today, thank God, one hundred and thirty million Americans, in forty-eight States, have forgotten points of the compass in our national unity.

It is true that prior to 1914 the United States often had been disturbed by events in other Continents. We had even engaged in two wars with European nations and in a number of undeclared wars in the West Indies, in the Mediterranean and in the Pacific for the maintenance of American rights and for the principles of peaceful commerce. But in no case had a serious threat been raised against our national safety or our continued independence. . . .

Every realist knows that the democratic way of life is at this moment being directly assailed in every part of the world—assailed either by arms, or by secret spreading of poisonous propaganda by those who seek to destroy unity and promote discord in nations that are still at peace.

During sixteen long months this assault has blotted out the whole pattern of democratic life in an appalling number of independent nations, great and small. The assailants are still on the march, threatening other nations, great and small.

Therefore, as your President, performing my constitutional duty to "give to the Congress information of the state of the Union," I find it, unhappily, necessary to report that the future and the safety of our country and of our democracy are overwhelmingly involved in events far beyond our borders.

Armed defense of democratic existence is now being gallantly waged in four continents. If that

defense fails, all the population and all the resources of Europe, Asia, Africa and Australasia will be dominated by the conquerors. Let us remember that the total of those populations and their resources in those four continents greatly exceeds the sum total of the population and the resources of the whole of the Western Hemisphere—many times over.

In times like these it is immature—and incidentally, untrue—for anybody to brag that an unprepared America, singlehanded, and with one hand tied behind its back, can hold off the whole world.

No realistic American can expect from a dictator's peace international generosity, or return of true independence, or world disarmament, or freedom of expression, or freedom of religion—or even good business.

Such a peace would bring no security for us or for our neighbors. "Those, who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety."

As a nation, we may take pride in the fact that we are soft-hearted; but we cannot afford to be soft-headed.

We must always be wary of those who with sounding brass and a tinkling cymbal preach the "ism" of appeasement.

We must especially beware of that small group of selfish men who would clip the wings of the American eagle in order to feather their own nests.

I have recently pointed out how quickly the tempo of modern warfare could bring into our very midst the physical attack which we must eventually expect if the dictator nations win this war.

There is much loose talk of our immunity from immediate and direct invasion from across the seas. Obviously, as long as the British Navy retains its power, no such danger exists. Even if there were no British Navy, it is not probable that any enemy would be stupid enough to attack us by landing troops in the United States from across thousands of miles of ocean, until it had acquired strategic bases from which to operate.

But we learned much from the lessons of the past years in Europe—particularly the lesson of Norway, whose essential seaports were captured by

treachery and surprise built up over a series of years.

The first place of the invasion of this Hemisphere would not be the landing of regular troops. The necessary strategic points would be occupied by secret agents and their dupes—and great numbers of them are already here, and in Latin America.

As long as the aggressor nations maintain the offensive, they—not we—will choose the time and the place and the method of their attack.

That is why the future of all the American Republics is today in serious danger.

That is why this Annual Message to the Congress is unique in our history.

That is why every member of the Executive Branch of the Government and every member of the Congress faces great responsibility and great accountability.

The need of the moment is that our actions and our policy should be devoted primarily—almost exclusively—to meeting this foreign peril. For all our domestic problems are now a part of the great emergency.

Just as our national policy in internal affairs has been based upon a decent respect for the rights and the dignity of all our fellow men within our gates, so our national policy in foreign affairs has been based on a decent respect for the rights and dignity of all nations, large and small. And the justice of morality must and will win in the end.

Our national policy is this:

First, by an impressive expression of the public will and without regard to partisanship, we are committed to all-inclusive national defense.

Second, by an impressive expression of the public will and without regard to partisanship, we are committed to full support of all those resolute peoples, everywhere, who are resisting aggression and are thereby keeping war away from our Hemisphere. By this support, we express our determination that the democratic cause shall prevail; and we strengthen the defense and the security of our own nation.

Third, by an impressive expression of the public will and without regard to partisanship, we are committed to the proposition that principles of morality and considerations for our own security will never permit us to acquiesce in a peace dictated by aggressors and sponsored by appeasers. We know that enduring peace cannot be bought at the cost of other people's freedom.

In the recent national election there was no substantial difference between the two great parties in respect to that national policy. No issue was fought out on this line before the American

electorate. Today it is abundantly evident that American citizens everywhere are demanding and supporting speedy and complete action in recognition of obvious danger.

Therefore, the immediate need is a swift and driving increase in our armament production. . . .

New circumstances are constantly begetting new needs for our safety. I shall ask this Congress for greatly increased new appropriations and authorizations to carry on what we have begun.

I also ask this Congress for authority and for funds sufficient to manufacture additional munitions and war supplies of many kinds, to be turned over to those nations which are now in actual war with aggressor nations.

Our most useful and immediate role is to act as an arsenal for them as well as for ourselves. They do not need man power, but they do need billions of dollars worth of the weapons of defense.

The time is near when they will not be able to pay for them all in ready cash. We cannot, and we will not, tell them that they must surrender, merely because of present inability to pay for the weapons which we know they must have.

I do not recommend that we make them a loan of dollars with which to pay for these weapons—a loan to be repaid in dollars.

I recommend that we make it possible for those nations to continue to obtain war materials in the United States, fitting their orders into our own program. Nearly all their matériel would, if the time ever came, be useful for our own defense.

Taking counsel of expert military and naval authorities, considering what is best for our own security, we are free to decide how much should be kept here and how much should be sent abroad to our friends who by their determined and heroic resistance are giving us time in which to make ready our own defense.

For what we send abroad, we shall be repaid within a reasonable time following the close of hostilities, in similar materials, or, at our option, in other goods of many kinds, which they can produce and which we need.

Let us say to the democracies: "We Americans are vitally concerned in your defense of freedom. We are putting forth our energies, our resources and our organizing powers to give you the strength to regain and maintain a free world. We shall send you, in ever-increasing numbers, ships, planes, tanks, guns. This is our purpose and our pledge."

In fulfillment of this purpose we will not be intimidated by the threats of dictators that they will regard as a breach of international law or as an act of war our aid to the democracies which dare to resist their aggression. Such aid is not an

act of war, even if a dictator should unilaterally proclaim it so to be.

When the dictators, if the dictators, are ready to make war upon us, they will not wait for an act of war on our part. They did not wait for Norway or Belgium or the Netherlands to commit an act of war.

Their only interest is in a new one-way international law, which lacks mutuality in its observance, and, therefore, becomes an instrument of oppression.

The happiness of future generations of Americans may well depend upon how effective and how immediate we can make our aid felt. No one can tell the exact character of the emergency situations that we may be called upon to meet. The Nation's hands must not be tied when the Nation's life is in danger.

We must all prepare to make the sacrifices that the emergency—almost as serious as war itself—demands. Whatever stands in the way of speed and efficiency in defense preparations must give way to the national need. . . .

The Nation takes great satisfaction and much strength from the things which have been done to make its people conscious of their individual stake in the preservation of democratic life in America. Those things have toughened the fiber of our people, have renewed their faith and strengthened their devotion to the institutions we make ready to protect.

Certainly this is no time for any of us to stop thinking about the social and economic problems which are the root cause of the social revolution which is today a supreme factor in the world.

For there is nothing mysterious about the foundations of a healthy and strong democracy. The basic things expected by our people of their political and economic systems are simple. They are:

Equality of opportunity for youth and for others.

Jobs for those who can work.

Security for those who need it.

The ending of special privilege for the few.

The preservation of civil liberties for all.

The enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living.

These are the simple, basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world. The inner and abiding strength of our economic and political systems is dependent upon the degree to which they fulfill these expectations.

Many subjects connected with our social economy call for immediate improvement.

As examples:

We should bring more citizens under the coverage of old-age pensions and unemployment insurance.

We should widen the opportunities for adequate medical care.

We should plan a better system by which persons deserving or needing gainful employment may obtain it.

I have called for personal sacrifice. I am assured of the willingness of almost all Americans to respond to that call. . . .

In the future days, which we seek to make secure, we look forward to a world founded upon four essential human freedoms.

The first is freedom of speech and expression—everywhere in the world.

The second is freedom of every person to worship God in his own way—everywhere in the world.

The third is freedom from want—which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants—everywhere in the world.

The fourth is freedom from fear—which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor—anywhere in the world.

That is no vision of a distant millennium. It is a definite basis for a kind of world attainable in our own time and generation. That kind of world is the very antithesis of the so-called new order of tyranny which the dictators seek to create with the crash of a bomb.

To that new order we oppose the greater conception—the moral order. A good society is able to face schemes of world domination and foreign revolutions alike without fear.

Since the beginning of our American history, we have been engaged in change—in a perpetual peaceful revolution—a revolution which goes on steadily, quietly adjusting itself to changing conditions—without the concentration camp or the quick-lime in the ditch. The world order which we seek is the cooperation of free countries, working together in a friendly, civilized society.

This nation has placed its destiny in the hands and heads and hearts of its millions of free men and women; and its faith in freedom under the



guidance of God. Freedom means the supremacy of human rights everywhere. Our support goes to those who struggle to gain those rights or

keep them. Our strength is our unity of purpose.

To that high concept there can be no end save victory.

## LEND-LEASE

TO MAKE AMERICA the "arsenal of democracy," the Lend-Lease policy was devised. The fight for the bill and the operations under it are described by Edward R. Stettinius, Jr. (1900-) in his *Lend-Lease: Weapon for Victory* (New York, 1944). Here, Stettinius (he was to become the Administrator of Lend-Lease and he filled that office with great competence) tells how British necessity and the memory of the war-debt controversy following World War I combined to contribute to the creation of Lend-Lease as a means of supplying Great Britain with the least possible disturbance of our own plans for defense.

The President had paved the way to Lend-Lease by his address of December 29, 1940, in which he had used the phrase, "arsenal of democracy." His message to Congress had asked for appropriations and authority; HR 1776 was the legislative program to make this possible. Any country "whose defense the President deems vital to the defense of the United States" was to be eligible for aid under the act. If such a nation asked for aid, the President might "sell, transfer title to, exchange, lease, lend or otherwise dispose of . . . any defense article" in return for "payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory."

The original act appropriated \$7,000,000,000 for aid to countries resisting aggression and was to run for a little more than two years. (In time, nearly \$44,000,000,000 was expended in this fashion.) It also provided for the drawing up of master Lend-Lease agreements. These turned out to be identical and each contained—among provisions for Lend-Lease and reverse Lend-Lease—an Article VII, which looked beyond the immediate war necessities. In fact,

Article VII sketched in broad strokes the nature of the postwar economic world the administration was striving to achieve. Article VII of the Russian agreement runs as follows:

In the first determination of the benefits to be provided to the United States of America by the Government of the Union of Soviet Socialist Republics in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of worldwide economic relations. To that end, they shall include provision for agreed action by the United States of America and the Union of Soviet Socialist Republics, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom, the basic principles of which were adhered to by the Government of the Union of Soviet Socialist Republics on September 24, 1941.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

The selections here reprinted are from Edward R. Stettinius, Jr., *Lend-Lease: Weapon for Victory* (New York, 1944), and are reprinted by permission of The Macmillan Company.



*Lend-Lease: Weapon for Victory*

BY EDWARD R. STETTINIUS, JR.

## CHAPTER VI. H.R. 1776

BY DECEMBER 1940, a majority of the American people, I believe, had made up their minds that it was in our national interest to continue the flow of arms to nations fighting the Axis. . . .

Three days after the election, the President publicly announced a "rule of thumb" for the division of American arms output. As weapons came off the production lines, they were to be divided roughly 50-50 between the United States forces and the British and Canadian forces. That same day, the Priorities Board approved a British request to order 12,000 more airplanes here in addition to the 11,000 they had already ordered. The promise of material aid to keep Britain in the fight was day by day being translated into a definite plan. But the machinery for carrying out the plan had still to be devised.

The most immediate problem was one of dollars. The British had started in September 1939 with roughly four and a half billions in dollars, and in gold and United States investments that could be turned into dollars. Much of this belonged to private British citizens, but after the outbreak of war the British Government began to take over the private dollar balances and United States investments, compensating the owners in British pounds. The dollars all went into a single Government war chest.

Outside of gold production within the British Commonwealth, the most important source from which the British could replenish their war chest of dollars was their export trade with the United States. During 1940, it seemed strange to many Americans that a nation battling for survival like Britain should be making such strenuous efforts to export such luxury goods as whiskey, fine woolens and pottery. But there was a good reason for it. These British-made goods were sold here for dollars, which were used in turn to buy American-made weapons.

In the sixteen months that followed the outbreak of war, the British managed to realize from sales of gold, exports and other sources almost two billion dollars more. But in the same period, they paid out nearly four and a half billion for the war supplies they had to have from this country and from other countries that demanded gold. Their net loss of dollars was almost two and a half billion. . . .

By the end of 1940, Britain's war chest of dollars was down almost to two billion, and of this nearly a billion and a half was already pledged to pay for war goods ordered here but not yet delivered. The British could not possibly mine enough gold, export enough goods or sell enough services, such as shipping, to get the dollars it would take to go on buying weapons here at the rate they needed them. They had already sold outright 335 million dollars worth of stocks in American companies owned by private individuals in Britain. The plain fact was that they had little more than enough dollar assets left to pay for the materials they had already ordered here. . . .

To meet the dollar problem, we could have made loans to Britain, as we had made loans to our Allies in the last war. At first glance, it was a simple and convenient solution, but in reality it was loaded with trouble. Loans between allies in a major war of survival seldom work out satisfactorily. The British had found this out more than a hundred years before when they had combined with other nations in Europe to stop Napoleon. They made some loans to finance their allies and then found that only a fraction of the loan could be repaid. In the long run, they simply gave up making loans altogether. Because it was vital to Britain's security that Napoleon be defeated, they gave enormous amounts of aid to their allies in the form of outright subsidies.

We in the United States had discovered after the last war how unworkable loans were when the war-debt problem brought economic dislocation and disastrous misunderstandings between allies who should have been standing together to keep the world at peace. A fixed money debt would create the same difficulties all over again.

There was another important reason for not making loans. The crux of the matter was not dollars; it was planes, guns and ships. To put aid to countries holding the Axis in check on a commercial basis would inevitably hamper us in achieving our real objective—to get enough weapons to the battlefronts to stop aggression before it reached the Western Hemisphere.

Munitions capacity was growing tighter every day; machine tools were becoming scarce; raw materials shortages began to loom ahead. By December 1st, 1940, only 2,100 of the 23,000 planes that the British had ordered or were programming had been delivered. To deliver all these planes

and to build at the same time the air strength our own safety required would strain our plant facilities to the limit. Only a single, unified Government procurement policy for all defense purposes could do the tremendous job that was now ahead. This meant that the United States Government should place all the orders for weapons in this country.

There was finally the problem of defense strategy. No one could foresee the changes that the course of the war might require in the allocation of American arms. It might be necessary for us to send abroad weapons originally scheduled for our own Army in order to prevent a decisive Axis victory overseas before we were prepared ourselves. On the other hand, we ourselves might be under attack when the planes ordered in December 1940 began to come off the production lines in December 1941.

The search had gone on in the Government all during the summer and fall of 1940 for the best solution to all these problems. The first time I got an idea of what the answer might be was at a meeting of the Defense Advisory Commission with the President in the late summer. We were talking of the shipping shortage and the increasing difficulty the British would inevitably have in moving their war supplies from the United States. They had already begun to buy ships here, but we knew they did not have enough dollars to go on with this program very long. Finally, the President suggested that it should not be necessary for the British to take their own funds and have ships built here, or for us to loan them money for this purpose. In his opinion there was no reason why we could not take a finished vessel and lease it to them for the duration of the emergency.

It was a new idea to all of us there, and it seemed to make sense. But the problems of the Defense Advisory Commission were then chiefly in the domestic field, and I thought little about the President's remark until later on when the words "Lend-Lease" were the center of everyone's attention in Washington. Then I thought back and realized that the President's remark was not just an isolated comment on a single problem. It was part of a complete plan for aiding the democracies that he was turning over in his mind.

The idea, I found later, had been first proposed in the Treasury Department, where the problem of continuing the flow of arms to Britain in the face of her diminishing dollar supply was constantly under consideration. The Treasury lawyers found that under an old statute of 1892, the Secretary of War, "when in his discretion it will be for the public good," could lease Army prop-

erty "not required for public use," for a period of not longer than five years. Under this statute, tractors, lathes, cranes, barges, and other such Army items had been leased from time to time.

The statute suggested the idea of applying the lease principle to a system of aid for Britain. It was a fruitful starting point. But the idea of an ordinary lease was not wholly applicable either. When a man rents a house, for instance, he ordinarily fixes a definite price and a length of time for the lease to run. This was plainly impossible when we sent weapons to Britain or to China. How long the crisis would last, what we would want them to give us in return—no one knew the answers to these questions. The lease would have to be open-ended, with a gentlemen's agreement for a fair and workable settlement in the best interests of all of us after the Axis had been defeated. . . .

As the march of aggression continued abroad, the country was coming to appreciate more fully the imminence of the threat to us if Britain should collapse. But a plan for furnishing her the arms she needed had still to be agreed upon. When the President returned from the Caribbean on December 16th, 1940, he was ready to make a proposal to the American people. He outlined it first at his press conference the next day.

To the reporters, Mr. Roosevelt laid down what he took to be the clear policy of the United States: "There is absolutely no doubt in the mind of a very overwhelming number of Americans that the best immediate defense of the United States is the success of Great Britain defending itself; and that, therefore, quite aside from our historic and current interest in the survival of democracy in the world as a whole, it is equally important from a selfish point of view and of American defense, that we should do everything possible to help the British Empire to defend itself."

He reminded the conference that no major war in all history had ever been won or lost because of money. In 1914 the bankers had all assured us that the war would probably not go on for more than three months because of lack of money, and if it did, the bankers would stop it within six months. "There was the best economic opinion in the world that the continuance of war was absolutely dependent on money in the bank. Well, you know what happened," he said.

"Now, what I'm trying to do is to eliminate the dollar sign." That was the heart of the proposal.

Then the President explained his solution in simple terms. Our factories were turning out munitions. The British were buying some of them; we were buying the rest. From now on, the United

States Government should place all the contracts for munitions to be manufactured in the United States. If we needed them when they came off the line, we would use them ourselves. If we decided that they "would be more useful to the defense of the United States if they were used in Great Britain than if they were kept in storage here," we could "either lease or sell the materials, subject to mortgage, to the people on the other side."

"The defense of the United States," and not dollars, was henceforth to determine where our weapons were to go. . . .

On January 6th, 1941, a week after the fireside chat, the President delivered his annual message to Congress on "The State of the Union."

"I find it unhappily necessary to report," he said, "that the future and the safety of our country are overwhelmingly involved in events far beyond our borders." Then he asked the Congress for the authority and the funds necessary to manufacture additional weapons and war supplies to be turned over to those countries actually at grips with the Axis.

Almost as soon as the President got back to the White House from the Capital, Secretary Morgenthau and E. H. Foley, the General Counsel of the Treasury, called on him to discuss a proposed bill to carry out the policy of full aid to the democracies. The bill had been first drafted four days before by Oscar S. Cox, a Maine lawyer who had come down to the Treasury in 1938 from the New York City Corporation Counsel's Office. He had worked on the problems of foreign purchases here since the earliest days, and he was among the first to propose the trade-in as a method of transferring the rifles to Britain. Later that summer, he had dug up the old 1892 statute that had begun the thinking on aid to the democracies in terms of a lease. His draft of the Lend-Lease Bill was modelled in part on the Pittman Act, passed in the summer of 1940 in order to assist the other American Republics to obtain arms in this country.

After Cox prepared the first draft, the Lend-Lease Bill was discussed and revised—by Secretary Morgenthau and the Treasury staff; by Secretary Stimson, Assistant Secretary McCloy, and other War Department officials; by Secretary Knox; by Secretary Hull and his legal advisor, Green Hackworth; by Attorney General Jackson; by Ben Cohen, and by many others—in a series of day and night discussions and drafting sessions. Congressional leaders—Senators Barkley, George, Connally and Harrison, Speaker Rayburn, Representatives McCormack, Bloom and Luther Johnson—were consulted. By the time the bill was brought to the President, it was a joint product of many different

persons. A new idea, a new word, a change of phrase came out of every discussion. The staff of the Congressional Legislative Counsel worked long hours getting the language in the best possible form. The Treasury lawyers worked long hours coordinating and reconciling all the suggestions that had been made.

When Morgenthau handed him the bill, the President read it slowly and carefully. After he had finished, he said that it provided for the aid which we had determined to give in the most direct and clean-cut fashion possible. He wanted it brought back to him as soon as possible initialed by Secretaries Hull, Stimson and Knox, by Mr. Knudsen and by Secretary Morgenthau himself.

The next day, Foley and Cox started around Washington for final clearance on the bill. There was another rapid series of conferences; a few more changes were made by the State Department and the War Department. But by five o'clock in the afternoon Secretary Morgenthau and Foley were back at the White House with a bill that everyone agreed on. It bore all the initials the President had asked for. . . .

At noon the next day, January 10th, Senator Barkley introduced the bill in the Senate, and Representative McCormack introduced it in the House. The Clerk of the House of Representatives stamped it with the number H.R. 1776.

#### CHAPTER VII. THE LEND-LEASE DEBATE

The debate on H.R. 1776—the Lend-Lease Bill—was the final stage in a running national debate that had been going on in the United States with increasing vigor since the fall of France.

In countless speeches, in editorials, in magazine articles, in resolutions adopted by organizations and meetings of all sorts, our Government was urged ever more insistently to increase aid to Britain and the other nations battling the Axis. The "Committee to Defend America by Aiding the Allies" urged a full program of aid as a necessary step to protect our own security.

On the other side, the "America First Committee" insisted that our national safety was not vitally endangered by the war in Europe and that we should take no steps to help either side. By rearming ourselves, they said, we would secure the defenses of the Western Hemisphere even if all the rest of the world fell to the Axis. Innumerable other groups—a small number of them tied up with Axis propagandists, but the great majority composed of loyal, sincere American citizens—were formed to fight the policy of aid to the nations battling the Axis.

During the late summer of 1940, when the

destroyers-for-bases exchange was under discussion, the debate rose in a sharp crescendo as it became focused on this specific proposal. When the transfer was finally made, it was clear, I believe, that a majority of the American people approved. This was still not a clear-cut decision on the basic issue of our foreign policy, however, for no one could deny that we had received an enormous immediate benefit from the exchange—a long chain of naval bases protecting our Atlantic approaches. The issue of all-out aid to Britain, China and other nations, with less immediate and tangible benefit to the United States, was still to be thrashed out. . . .

At no time in our history have these processes of democratic discussion had freer rein than in the debate on Lend-Lease. It was as if the whole American people were thinking out loud. I felt then, and feel now, that in the process we as a nation cleaned up our thinking about our place in the world. We were able to take a fresh inventory of ourselves, of our past and our future. Then through our democratic processes, we freely made up our minds on the part we had to play in the affairs of the world if we were to preserve our freedom.

The national debate on aid to the democracies came into ever sharper focus with the President's story of the garden hose, the fireside chat with its pledge of the "arsenal of democracy," and the address on the State of the Union. When the Lend-Lease Bill was introduced on January 10th, 1941, the issues were definitely drawn.

H.R. 1776 proposed both a broad principle of foreign policy and a method for making it effective in a world at war.

The principle was contained in the words defining eligibility for Lend-Lease aid—"any country whose defense the President deems vital to the defense of the United States." The word "vital" was the heart of the matter. To favor limited aid to the allies as an expedient device for saving friendly nations from conquest was one thing. To declare that the defense of those nations was "vital" to our own national security was quite another. If we adopted the bill with these words, we would, in effect, declare the interdependence of the American people with the other freedom-loving people of the world in the face of Axis aggression. We would recognize that adding our strength to the strength of our friends was our greatest hope of preserving this nation under those principles of the American faith established in our Declaration of Independence and in the Gettysburg Address.

The method proposed by H.R. 1776 was a logi-

cal one for carrying out this principle of foreign policy. The bill authorized the President to "sell, transfer title to, exchange, lease, lend, or otherwise dispose of . . . any defense article" to any nation whose defense he found vital to the defense of the United States. As arms manufactured in this country came off the production line, we would decide where they could contribute most to our security. If they would do more good in the hands of our friends than they would in reserve here at home, we would transfer them.

"The benefit to the United States" in return for these transfers, the bill provided, "may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory." This provision was purposely broad. The greatest immediate benefit to us, of course, would be the use of Lend-Lease weapons against the aggressor nations. Beyond that, we would expect nations receiving aid to assist us in other ways. But the course of events alone could determine what form these benefits would take.

In order that the President might act quickly enough to meet the swift developments of the war, wide discretionary authority was delegated to him by the bill. He was to name the nations whose defense was vital to the defense of the United States. Within the limits of Congressional appropriations, he was to decide what arms and other supplies should be transferred and what services performed. It was left to him to decide what the benefits to the United States should be in return for the aid we rendered.

The bill recognized the total nature of this war in its broad definition of the "defense articles" which might be transferred. We could lend-lease weapons of all types for land, sea, or air warfare; all types of transport equipment and services necessary to maintain lines of supply stretching thousands of miles; the machines, tools, and raw materials required to maintain production of weapons in the factories of the nations battling the Axis; food and the means to produce food for their soldiers and their war workers. We could repair, bunker, and provision in our ports and dry-docks the warships and cargo vessels of Great Britain and her allies. We could make available the designs of guns, of airplanes, and any other new weapons we had. And under the same power—"to communicate . . . any defense information"—we could train pilots, gunners, and mechanics here for the air forces battling the Luftwaffe and the Japanese Zeros. These were the essential features of H.R. 1776. . . .

As the weeks passed, it became apparent that we were divided on the issue of Lend-Lease without

regard to party, profession, background, or creed. . . .

In essence, the Lend-Lease debate, both in Congress and in the country at large, did not concern aid to other nations, but rather the strategy by which we should provide for the security of our own nation. By the time the debate started, there was little question in the minds of the American people that the United States was in danger. But the character and extent of that danger and the steps we must take to protect ourselves against it were still in dispute.

Those witnesses before the House and Senate Committees, and the others who saw the danger most clearly, were convinced first of all that there were no limits to the Axis designs of aggression. As Secretary Hull said, "Mankind is today face to face, not with regional wars or isolated conflicts, but with an organized, ruthless, and implacable movement of steadily expanding conquest." There was no reason to believe that with Dakar in Axis control, and—if the worst should befall Britain—with the Atlantic open to her, Germany would not seize the opportunity to intervene in a Nazi-inspired revolution somewhere in South America. Since Germany could not doubt that we would instantly come to the defense of any South American republic menaced by Nazi armies, she might well combine her offensive in South America with an attack upon North America through Britain, Ireland and Greenland, natural stepping stones across the North Atlantic.

"For the first time in modern history," Secretary Stimson said, "the United States is confronted by a nation with an overwhelming army, including an overwhelming air force, and with the possibility of getting control of the Atlantic."

The imminence of this danger to the United States was put squarely by Secretary Morgenthau, after he had outlined Britain's desperate dollar position: "If Congress does not act on this bill, there is nothing left for Great Britain to do but stop fighting."

In the Pacific, the threat to continental United States was not so imminent, but the danger to our overall security was equally grave. Japan's aims, like Hitler's, were clearly without limit. Domination of all China was now an openly confessed goal, and the Japanese were becoming more and more outspoken about their aims for dominating all the rest of East Asia and all of the East Indies as well. Already the Japanese had thrust down into French Indo-China, flanking the Philippines and pointing directly at Singapore and the Dutch East Indies. All this was dignified by the phrase "Greater East Asia Co-Prosperity Sphere," but

the actions of Japan in Manchuria and China left no doubt that this was merely a Japanese version of Hitler's "New Order." They were determined to make the whole of East Asia and the Indies into an economic colony for ruthless Japanese exploitation. All hope of equality and free commerce in Asia, for the mutual benefit of Orient and Occident alike, would be destroyed if they succeeded.

In 1941, our two-ocean Navy was still in the building. Our one-ocean fleet was in the Pacific. Our Army was just beginning to expand. We were easier game then than we might ever be again. "Such a situation," Mr. Stimson said, "can easily become critical if British sea power in the Atlantic is lost. Such a disaster would involve not only the security of the North Atlantic but the security of the South Atlantic and South America as well." And if Germany should attack somewhere on the long eastern shore of this hemisphere, Japan might well call any steps we took to defend ourselves an "attack" on Germany and come to Germany's aid "with all political, economic, and military means," as she had promised to do in the Axis alliance of September 1940. Japan might well seize this as the most favorable moment that might ever occur for an attack on us—certainly on the Philippines and our other islands, and even perhaps on the Panama Canal, Alaska or some other point on our western coast.

In a sense, the attack on the Western Hemisphere had already begun. The Nazis do not make war merely by building up armed forces at home and then suddenly launching them against an unsuspecting neutral. Their attack on the freedom of a country begins long before their armies march over its boundaries or their airplanes appear over its cities. They foment political disturbances. Through *Auslandsdeutsche* organizations and bunds, they build an army within the gates to help them on the day of attack. By cartel agreements and other forms of economic warfare, they do their best to destroy the war industries of a country which they propose to conquer. With their commercial airlines they develop reserves of pilots who know a country well from the air, and they build airfields which may some day be used by their invading air forces. . . .

One objection to this strategy of defense, raised time and again in the hearings, was the doctrine of neutrality which had been evolved during the 19th century in response to the desire of nations to continue normal commercial trade with belligerents. The law was a complicated compromise between this desire to trade and the natural desire of a warring nation to cut off its enemy from all

outside sources of supplies. Effective blockades were defined; contraband of war was listed. The rights and duties of neutrals and nations at war were carefully detailed. As a part of all this, the doctrine was evolved that wars are neither good nor bad; they just exist. No distinction was to be made by non-belligerent governments between the side that was in the right and the side that was in the wrong.

As the Axis threat grew closer, two basic truths of international law which had lain long neglected underneath the theory of neutrality slowly struggled to the surface. The first was the simple right of any nation to take whatever steps were necessary to protect itself against an enemy clearly spoiling for war—the law of self-defense. As Secretary Hull said before the House Committee on Foreign Affairs, “in the face of the forces of conquest now on the march across the earth, self-defense is and must be the compelling consideration in the determination of wise and prudent national policy.”

The second principle might best be called the “law of mutuality.” The Axis nations, Secretary Hull said, “have repudiated in every respect the long-accepted principle of peaceful and orderly international relations. . . . I am certain that the day will come again when no nation will have the effrontery and the cynicism to demand that, while it itself scoffs at and disregards every principle of law and order, its intended victims must adhere rigidly to all such principles—until the very moment when its armed forces have crossed their frontiers. But so long as such nations exist, we cannot and must not be diverted—either by their threats or by their hypocritical protests—from our firm determination to create means and conditions of self-defense.” . . .

When the hearings were over, the House Foreign Affairs Committee voted 17 to 8 to report the bill favorably “as of the highest importance to the vital interests of our country—and even of our civilization.” It reached the floor on February 3rd, 1941. Then followed five days of debate during which all the arguments on both sides were

finally summed up. One by one the amendments intended to emasculate the bill or to substitute provisions authorizing a straight money loan or credit were voted down, with plenty of votes to spare. On February 8th, the bill passed by a vote of 260 to 165.

Debate in the Senate began on February 17th after the Senate Foreign Relations Committee had reported the bill with its approval by a vote of 15 to 8, and it continued until March 8th—almost three weeks. Once again, all the arguments were summed up. Senator Barkley, Democratic leader, and Senator Austin, deputy Republican leader, led off the debate for those in favor of the bill. Like the House, the Senate voted down a score of opposition amendments. Finally, on Saturday night, March 8th, the opposition gave way and a final vote was taken. It was 60 to 31 in favor of the bill.

The Senate version of the bill went back to the House for concurrence in minor changes, and on Tuesday, March 11, 1941, the House accepted them by a vote of 317 to 71. As soon as the vote was completed the House Minority Leader, Representative Martin and Republican Senator Vandenberg, both of whom had been active in opposition, issued unity statements pledging full bipartisan support of the Lend-Lease program, now that it was the law of the land.

The bill was engrossed immediately and rushed to the White House. At ten minutes before four o'clock that afternoon the Lend-Lease Act became law. The next day Congress was asked to appropriate \$7,000,000,000 to start the production of planes, tanks and guns, raw materials, factory equipment and food for nations whose defense we had now decided was vital to our own.

On March 15th, the President summed up the debate at the White House Correspondents Association annual dinner. “Let the dictators of Europe and Asia doubt our unanimity now,” he said. “The decisions of our democracy may be slowly arrived at. But when that decision is made, it is proclaimed not with the voice of any one man, but with the voice of one hundred and thirty millions.”

## WORLD WAR II

THE UNITED STATES was doing everything it possibly could to help Britain—and also the U.S.S.R. after Hitler suddenly attacked Russia on June 22, 1941—but it continued to watch uneasily Japan's creeping advance down the Asiatic continent. During the winter of 1940–

41, as relations between the two countries steadily deteriorated, it was becoming plain that Japan was beginning to bring pressure to bear on the Dutch in Batavia and was moving further into Indo-China and adjoining Thailand. In the spring of 1941, Japan sent a new

ambassador to the United States, Admiral Nomura, and he and Secretary Hull kept in almost constant touch with one another. Agreement was impossible: Japan had no intention of surrendering her newly obtained gains in the Southwest Pacific and—as both a warning and a measure of defense—on July 26, a presidential order froze all Japanese assets in the United States. When, in October, General Tojo became Prime Minister of Japan, it was apparent that the army had gained control of Japanese affairs. In November, Secretary Hull admitted to a Cabinet meeting that our relations with Japan were extremely critical.

On November 15, Japan sent Saburo Kurusu to Washington to join Admiral Nomura in negotiating with Secretary Hull. Conversations proceeded; and, in fact, one such meeting had

just been terminated when the world was astounded by the unheralded attack on Pearl Harbor on Sunday, December 7, 1941. The next day, the President appeared before Congress and requested the declaration of the existence of a state of war with Japan. Both houses did so immediately with only a single dissenting vote. On December 11, Germany and Italy declared war on the United States. In his congressional address and in his radio speech to the American people—both reprinted here—Roosevelt describes the immediate steps leading to America's involvement in World War II.

The two addresses were published in *Development of United States Foreign Policy: Addresses and Messages of Franklin D. Roosevelt* (Senate Document No. 188, 77th Congress, 2d Session, Washington, 1942).

## Two Addresses

BY FRANKLIN D. ROOSEVELT

### I. ADDRESS ASKING FOR A WAR DECLARATION AGAINST JAPAN, DECEMBER 8, 1941

YESTERDAY, December 7, 1941—a date which will live in infamy—the United States of America was suddenly and deliberately attacked by naval and air forces of the Empire of Japan.

The United States was at peace with that nation and, at the solicitation of Japan, was still in conversation with its Government and its Emperor looking toward the maintenance of peace in the Pacific. Indeed, one hour after Japanese air squadrons had commenced bombing in Oahu, the Japanese Ambassador to the United States and his colleague delivered to the Secretary of State a formal reply to a recent American message. While this reply stated that it seemed useless to continue the existing diplomatic negotiations, it contained no threat or hint of war or armed attack.

It will be recorded that the distance of Hawaii from Japan makes it obvious that the attack was deliberately planned many days or even weeks ago. During the intervening time the Japanese Government has deliberately sought to deceive the United States by false statements and expressions of hope for continued peace.

The attack yesterday on the Hawaiian Islands has caused severe damage to American naval and

military forces. Very many American lives have been lost. In addition American ships have been reported torpedoed on the high seas between San Francisco and Honolulu.

Yesterday the Japanese Government also launched an attack against Malaya.

Last night Japanese forces attacked Hong Kong.

Last night Japanese forces attacked Guam.

Last night Japanese forces attacked the Philippine Islands.

Last night the Japanese attacked Wake Island.

This morning the Japanese attacked Midway Island.

Japan has, therefore, undertaken a surprise offensive extending throughout the Pacific area. The facts of yesterday speak for themselves. The people of the United States have already formed their opinions and well understand the implications to the very life and safety of our Nation.

As Commander in Chief of the Army and Navy I have directed that all measures be taken for our defense.

Always will we remember the character of the onslaught against us.

No matter how long it may take us to overcome this premeditated invasion, the American people, in their righteous might, will win through to absolute victory.



I believe I interpret the will of the Congress and of the people when I assert that we will not only defend ourselves to the uttermost but will make very certain that this form of treachery shall never endanger us again.

Hostilities exist. There is no blinking at the fact that our people, our territory, and our interests are in grave danger.

With confidence in our armed forces—with the unbounded determination of our people—we will gain the inevitable triumph—so help us God.

I ask that the Congress declare that since the unprovoked and dastardly attack by Japan on Sunday, December 7, a state of war has existed between the United States and the Japanese Empire.

## 2. ADDRESS TO THE AMERICAN PEOPLE, DECEMBER 9, 1941

The sudden criminal attacks perpetrated by the Japanese in the Pacific provide the climax of a decade of international immorality.

Powerful and resourceful gangsters have banded together to make war upon the whole human race. Their challenge has now been flung at the United States of America. The Japanese have treacherously violated the long-standing peace between us. Many American soldiers and sailors have been killed by enemy action. American ships have been sunk, American airplanes have been destroyed.

The Congress and the people of the United States have accepted that challenge.

Together with other free peoples, we are now fighting to maintain our right to live among our world neighbors in freedom and in common decency, without fear of assault.

I have prepared the full record of our past relations with Japan, and it will be submitted to the Congress. It begins with the visit of Commodore Perry to Japan 88 years ago. It ends with the visit of two Japanese emissaries to the Secretary of State last Sunday, an hour after Japanese forces had loosed their bombs and machine guns against our flag, our forces, and our citizens.

I can say with utmost confidence that no Americans today or a thousand years hence, need feel anything but pride in our patience and our efforts through all the years toward achieving a peace in the Pacific which would be fair and honorable to every nation, large or small. And no honest person, today or a thousand years hence, will be able to suppress a sense of indignation and horror at the treachery committed by the military dictators of Japan, under the very shadow of the flag of peace borne by their special envoys in our midst.

The course that Japan has followed for the past

10 years in Asia has paralleled the course of Hitler and Mussolini in Europe and Africa. Today, it has become far more than a parallel. It is collaboration so well calculated that all the continents of the world, and all the oceans, are now considered by the Axis strategists as one gigantic battlefield.

In 1931, Japan invaded Manchukuo—without warning.

In 1935, Italy invaded Ethiopia—without warning.

In 1938, Hitler occupied Austria—without warning.

In 1939, Hitler invaded Czechoslovakia—without warning.

Later in 1939, Hitler invaded Poland—without warning.

In 1940, Hitler invaded Norway, Denmark, Holland, Belgium, and Luxembourg—without warning.

In 1940, Italy attacked France and later Greece—without warning.

In 1941, the Axis Powers attacked Yugoslavia and Greece and they dominated the Balkans—without warning.

In 1941, Hitler invaded Russia—without warning.

And now Japan has attacked Malaya and Thailand—and the United States—without warning.

It is all of one pattern.

We are now in this war. We are all in it—all the way. Every single man, woman, and child is a partner in the most tremendous undertaking of our American history. We must share together the bad news and the good news, the defeats and the victories—the changing fortunes of war.

So far, the news has all been bad. We have suffered a serious setback in Hawaii. Our forces in the Philippines, which include the brave people of that commonwealth, are taking punishment, but are defending themselves vigorously. The reports from Guam and Wake and Midway Islands are still confused, but we must be prepared for the announcement that all these three outposts have been seized.

The casualty lists of these first few days will undoubtedly be large. I deeply feel the anxiety of all families of the men in our armed forces and the relatives of people in cities which have been bombed. I can only give them my solemn promise that they will get news just as quickly as possible.

This Government will put its trust in the stamina of the American people, and will give the facts to the public as soon as two conditions have been fulfilled: First, that the information has been definitely and officially confirmed; and, second, that the release of the information at the time it is re-



ceived will not prove valuable to the enemy directly or indirectly. . . .

Now a word about the recent past—and the future. A year and a half has elapsed since the fall of France, when the whole world first realized the mechanized might which the Axis nations had been building for so many years. America has used that year and a half to great advantage. Knowing that the attack might reach us in all too short a time, we immediately began greatly to increase our industrial strength and our capacity to meet the demands of modern warfare.

Precious months were gained by sending vast quantities of our war materials to the nations of the world still able to resist Axis aggression. Our policy rested on the fundamental truth that the defense of any country resisting Hitler or Japan was in the long run the defense of our own country. That policy has been justified. It has given us time, invaluable time, to build our American assembly lines of production.

Assembly lines are now in operation. Others are being rushed to completion. A steady stream of tanks and planes, of guns and ships, of shells and equipment—that is what these 18 months have given us.

But it is all only a beginning of what has to be done. We must be set to face a long war against crafty and powerful bandits. The attack at Pearl Harbor can be repeated at any one of many points in both oceans and along both our coast lines and against all the rest of the hemisphere.

It will not only be a long war, it will be a hard war. That is the basis on which we now lay all our plans. That is the yardstick by which we measure what we shall need and demand—money, materials, doubled and quadrupled production, ever increasing. The production must be not only for our own Army and Navy and air forces. It must reinforce the other armies and navies and air forces fighting the Nazis and the war lords of Japan throughout the Americas and the world.

I have been working today on the subject of production. Your Government has decided on two broad policies.

The first is to speed up all existing production by working on a 7-day-week basis in every war industry, including the production of essential raw materials.

The second policy, now being put into form, is to rush additions to the capacity of production by building more new plants, by adding to old plants, and by using the many smaller plants for war needs.

Over the hard road of the past months we have at times met obstacles and difficulties, divisions

and disputes, indifference and callousness. That is now all past and, I am sure, forgotten.

The fact is that the country now has an organization in Washington built around men and women who are recognized experts in their own fields. I think the country knows that the people who are actually responsible in each and every one of these many fields are pulling together with a teamwork that has never before been excelled.

On the road ahead there lies hard work—grueling work—day and night, every hour and every minute.

I was about to add that ahead there lies sacrifice for all of us.

But it is not correct to use that word. The United States does not consider it a sacrifice to do all one can, to give one's best to our Nation, when the Nation is fighting for its existence and its future life.

It is not a sacrifice for any man, old or young, to be in the Army or the Navy of the United States. Rather is it a privilege.

It is not a sacrifice for the industrialist or the wage earner, the farmer or the shopkeeper, the trainman or the doctor, to pay more taxes, to buy more bonds, to forego extra profits, to work longer or harder at the task for which he is best fitted. Rather is it a privilege.

It is not a sacrifice to do without many things to which we are accustomed if the national defense calls for doing without. . . .

In these past few years—and, most violently, in the past few days—we have learned a terrible lesson.

It is our obligation to our dead—it is our sacred obligation to their children and our children—that we must never forget what we have learned.

And what we all have learned is this:

There is no such thing as security for any nation—or any individual—in a world ruled by the principles of gangsterism.

There is no such thing as impregnable defense against powerful aggressors who sneak up in the dark and strike without warning.

We have learned that our ocean-girt hemisphere is not immune from severe attack—that we cannot measure our safety in terms of miles on any map.

We may acknowledge that our enemies have performed a brilliant feat of deception, perfectly timed and executed with great skill. It was a thoroughly dishonorable deed, but we must face the fact that modern warfare as conducted in the Nazi manner is a dirty business. We don't like it—we didn't want to get in it—but we are in it and we're going to fight it with everything we've got.

I do not think any American has any doubt of

our ability to administer proper punishment to the perpetrators of these crimes. . . .

The true goal we seek is far above and beyond the ugly field of battle. When we resort to force, as now we must, we are determined that this force shall be directed toward ultimate good as well as against immediate evil. We Americans are not destroyers; we are builders.

We are now in the midst of a war, not for conquest, not for vengeance, but for a world in which this Nation, and all that this Nation represents, will be safe for our children. We expect to eliminate the danger from Japan, but it would serve

us ill if we accomplished that and found that the rest of the world was dominated by Hitler and Mussolini.

We are going to win the war, and we are going to win the peace that follows.

And in the dark hours of this day—and through dark days that may be yet to come—we will know that the vast majority of the members of the human race are on our side. Many of them are fighting with us. All of them are praying for us. For, in representing our cause, we represent theirs as well—our hope and their hope for liberty under God.

## ONE WORLD

IN 1940, THE REPUBLICANS faced the unprecedented necessity—or opportunity—of fighting a presidential campaign with the third term as one of the most conspicuous issues. For the New Deal, and the defense program which had all but supplanted it, could be trusted to no Democratic leader other than Roosevelt. As their candidate, the Republicans chose Wendell Lewis Willkie (1892–1944), a successful lawyer and utility-company executive who, in the interests of his Commonwealth and Southern Corporation, had skillfully tested—and succeeded in cutting down—the powers of the TVA. He had never previously held public office.

Willkie was no standpatter, although he had endeared himself to conservative business interests, and with much of the achievement of the New Deal he sympathized. He was opposed, however, to the New Deal's inefficiency and irresponsibility, to its hostility to business, and to its willingness to build up a great bureaucracy. On foreign affairs he saw eye to eye with the President: Britain had to be aided, the Axis meant to attack us. Willkie made a good fight and cut heavily into Roosevelt's popular following; in fact, the popular vote for him was 22,000,000 against Roosevelt's 27,000,000. But the Electoral College vote was 449 to 82, as the Republicans carried only ten New England and Midwestern States.

Unlike many defeated dark-horse candidates, however, Willkie did not retire into obscurity

after his campaign. Before long, the United States was involved in the war and Willkie without reservation accepted the President's leadership. Willkie's *One World* (New York, 1943) is a statement of his loyalty and an attempt to make the people of the United States know why they were fighting.

Late in August, 1943, Willkie left on the world-wide wartime journey which he describes in his book; he returned to the United States in October, after having flown across five continents, visited the desert and the Russian fronts, stopped in Middle Asia, and talked to such war leaders as Montgomery, Stalin and Chiang Kai-shek. What Willkie saw convinced him that the people of the world were with the Allies, but that many Allied leaders, particularly executive military officers in positions of local command, had no notion of the world they lived in. All this needed changing. To Willkie, "only new men and new ideas in the machinery of our relations with the peoples of the East can win the victory without which any peace will be only another armistice." But he was also disturbed by the fanatical nationalism that was rising its head in the Middle East.

Between his trips to the Middle East and to China, and again on his way home from Chungking, Willkie visited Russia. There, he saw factories and farms, had a glimpse of the front, talked to Soviet officials, and thought about the Revolution while the Russians were fighting to hold Stalingrad. As a result of those ob-

servations, Willkie concluded that the U.S.S.R. was a going concern, that it was a trustworthy wartime ally, and that there could "be no continued peace" unless the United States learned to work with Russia after the war. Yet Willkie was convinced that communism could make no inroads on a living democracy that used its ideals of freedom and equality of opportunity to enrich the lives of its citizens.

From the experiences of his forty-nine day trip, Willkie drew conclusions that form the basis of the policy he formulates in the last chapter of *One World*. For the United States, for the American people particularly, there exists a deep reservoir of good will. But America can turn that good will to the use of peace only if it has sound notions about the reasons for this war. To have real peace, we must reach substantial agreement with our allies now. The peoples want a working world-cooperation to replace both imperialism and isolationism. If we are not to fall into the morass of cynicism and inertia that followed the first World War, the United States and the United Nations must avoid the errors of the past: preservation of

imperialism, neglect of economic problems, and imposition of a ready-made international organization. If the United Nations are to remain united for peace, America must acquire and follow a consistent foreign policy. Isolationism has been tried and found wanting. The American people bumbled into that after the last war; they cannot afford to repeat the error. Since geographic remoteness can no longer protect us, we must choose among narrow nationalism, which means ultimate dictatorship; imperialism, which attacks other people's freedom and may finally destroy our own; and a world offering free opportunity to all. The Western Powers must abandon their empires, for the East will no longer abide them. We must restore world trade and raise world living standards, if only for American self-interest. And we must make certain that the United States joins the society of free nations as a wholehearted and responsible member. In this way, Willkie saw the realization of the American dream.

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## *One World*

BY WENDELL L. WILLKIE

### OUR IMPERIALISMS AT HOME

... A TRUE WORLD OUTLOOK is incompatible with a foreign imperialism, no matter how high-minded the governing country. It is equally incompatible with the kind of imperialism which can develop inside any nation. Freedom is an indivisible word. If we want to enjoy it, and fight for it, we must be prepared to extend it to everyone, whether they are rich or poor, whether they agree with us or not, no matter what their race or the color of their skin. We cannot, with good conscience, expect the British to set up an orderly schedule for the liberation of India before we have decided for ourselves to make all who live in America free.

In this war we are allied with four hundred million people of China and we count as our friends three hundred million people of India. Fighting with us are the Filipinos and the natives of Java and the East Indies and of South Africa.

Together, these peoples comprise almost half of the world's population. With none of them have the majority of Americans any ties of race. But we are learning in this war that it is not racial classifications nor ethnological considerations which bind men together; it is shared concepts and kindred objectives.

We are learning that the test of a people is their aim and not their color. Even Hitler's high racial wall has been breached by the recognition of a common purpose with those "honorary Aryans," the Japanese. We, too, have our natural allies. We must, now and hereafter, cast our lot as a nation with all those other peoples, whatever their race or color, who prize liberty as an innate right, both for themselves and for others. We must, now and hereafter, together with those peoples, reject the doctrine of imperialism which condemns the world to endless war.

Let me emphasize once more that race and color

do not determine what people are allies and what people are enemies in this struggle. In the East, we have a plain example. Japan is our enemy because of her wanton and barbaric aggression upon weaker nations and because of the imperialistic doctrine by which she seeks to rule and enslave the world. Japan is our enemy because of the treacherous and unprovoked attacks by which she has launched each of her assaults in carrying forward her scheme of conquest.

China is our friend because like us she nourishes no dream of conquest and because she values liberty. She is our ally because, first among the nations, she resisted aggression and enslavement. . . .

It has been a long while since the United States had any imperialistic designs toward the outside world. But we have practiced within our own boundaries something that amounts to race imperialism. The attitude of the white citizens of this country toward the Negroes has undeniably had some of the unlovely characteristics of an alien imperialism—a smug racial superiority, a willingness to exploit an unprotected people. We have justified it by telling ourselves that its end is benevolent. And sometimes it has been. But so sometimes have been the ends of imperialism. And the moral atmosphere in which it has existed is identical with that in which men—well-meaning men—talk of “the white man’s burden.” . . .

Our very proclamations of what we are fighting for have rendered our own inequities self-evident. When we talk of freedom and opportunity for all nations, the mocking paradoxes in our own society become so clear they can no longer be ignored. If we want to talk about freedom, we must mean freedom for others as well as ourselves, and we must mean freedom for everyone inside our frontiers as well as outside. During a war, this is especially important.

The threat to racial and religious, even to political, minority groups springs in wartime from two things—an overzealous mass insistence upon general conformity to majority standards, and the revival under emotional strains of age-old racial and religious distrusts. Minorities then are apt to be charged with responsibility for the war itself, and all the dislocations and discomforts arising from it. They are jealously subjected to scrutiny to determine if they are the recipients of special advantages. . . .

Our nation is composed of no one race, faith, or cultural heritage. It is a grouping of some thirty peoples possessing varying religious concepts, philosophies, and historical backgrounds. They are linked together by their confidence in

our democratic institutions as expressed in the Declaration of Independence and guaranteed by the Constitution for themselves and for their children.

The keystone of our union of states is freedom—freedom for the individual to worship as he chooses, to work as he chooses, and to live and rear his children as he chooses. Liberty, if it is to be for all, must be protected by basic safeguards intended to give it the most general diffusion attainable, and none can expect privileges which encroach upon the rights of others. Despite the functionings of our mischievous bureaucracies, and our sometimes excessively enterprising legislatures, and—in deplorable but fortunately isolated instances—the flaring of mob law, we have obtained here in America, in the course of little more than a century and a half of experience and adjustment, the most reasonable expression of freedom that has yet existed in history.

Our success thus far as a nation is not because we have built great cities and big factories and cultivated vast areas, but because we have promoted this fundamental assurance of freedom upon which all our material development has depended, and have tolerated, and learned to use, our diversities. . . .

If we want to see the opposite of this American system, we have merely to look at the military despotism of Hitler and the autocracy of Japan, and the fading dictatorship of Fascist Italy. The story of Germany for the last ten years has been one of racial and religious intolerance that provided a mask behind which a peace-professing dictator lured the people first to minority persecution, then to war. This intolerance gave the German nation the momentary strength of complete regimentation. Actually, it has undermined and weakened the social structure so that when the tide of war turns, collapse is likely to be sudden and complete.

It has always impressed me that, quite apart from any reasons of humanitarianism or justice or any sentiment regarding the protection of the weak by the strong, it is only common sense to safeguard jealously the rights of minorities. For minorities are rich assets of a democracy, assets which no totalitarian government can afford. Dictatorships must, of necessity, fear and suppress them. But within the tolerance of a democracy, minorities are the constant spring of new ideas, stimulating new thought and action, the constant source of new vigor.

To suppress minority thinking and minority expression would tend to freeze society and prevent progress. For the majority itself is stimulated

by the existence of minority groups. The human mind requires contrary expressions against which to test itself.

For now more than ever, we must keep in the forefront of our minds the fact that whenever we take away the liberties of those whom we hate, we are opening the way to loss of liberty for those we love.

Our way of living together in America is a strong but delicate fabric. It is made up of many threads. It has been woven over many centuries by the patience and sacrifice of countless liberty-loving men and women. It serves as a cloak for the protection of poor and rich, of black and white, of Jew and gentile, of foreign- and native-born.

Let us not tear it asunder. For no man knows, once it is destroyed, where or when man will find its protective warmth again.

#### ONE WORLD

It was only a short time ago—less than a quarter of a century—that the allied nations gained an outstanding victory over the forces of conquest and aggression then led by imperial Germany.

But the peace that should have followed that war failed primarily because no joint objectives upon which it could be based had been arrived at in the minds of the people, and therefore no world peace was possible. The League of Nations was created full-blown; and men and women, having developed no joint purpose, except to defeat a common enemy, fell into capricious arguments about its structural form. Likewise, it failed because it was primarily an Anglo-French-American solution, retaining the old colonial imperialisms under new and fancy terms. It took inadequate account of the pressing needs of the Far East, nor did it sufficiently seek solution of the economic problems of the world. Its attempts to solve the world's problems were primarily political. But political internationalism without economic internationalism is a house built upon sand. For no nation can reach its fullest development alone.

Our own history furnishes, I believe, another clue to our failure. One of our most obvious weaknesses, in the light of what is going on today, is the lack of any continuity in our foreign policy. Neither major party can claim to have pursued a stable or consistent program of international co-operation even during the relatively brief period of the last forty-five years. Each has had its season of world outlook—sometimes an imperialistic one—and each its season of strict isolationism, the Congressional leadership of the party out of power

usually, according to accepted American political practice, opposing the program of the party in power, whatever it might be.

For years many in both parties have recognized that if peace, economic prosperity, and liberty itself were to continue in this world, the nations of the world must find a method of economic stabilization and co-operative effort.

These aspirations at the end of the First World War, under the presidency of Woodrow Wilson, produced a program of international co-operation intended to safeguard all nations against military aggression, to protect racial minorities, and to give the oncoming generation some confidence that it could go about its affairs without a return of the disrupting and blighting scourge of war. Whatever we may think about the details of that program, it was definite, affirmative action for world peace. We cannot state positively just how effective it might have proved had the United States extended to it support, influence, and active participation.

But we do know that we tried the opposite course and found it altogether futile. We entered into an era of strictest detachment from world affairs. Many of our public leaders, Democratic and Republican, went about the country proclaiming that we had been tricked into the last war, that our ideals had been betrayed, that never again should we allow ourselves to become entangled in world politics which would inevitably bring about another armed outbreak. We were blessed with natural barriers, they maintained, and need not concern ourselves with the complicated and unsavory affairs of an old world beyond our borders.

We shut ourselves away from world trade by excessive tariff barriers. We washed our hands of the continent of Europe and displayed no interest in its fate while Germany rearmed. We torpedoed the London Economic Conference when the European democracies, with France lagging in the rear, were just beginning to recover from the economic depression that had sapped their vitality, and when the instability of foreign exchange remained the principal obstacle to full revival. And in so doing, we sacrificed a magnificent opportunity for leadership in strengthening and rehabilitating the democratic nations, in fortifying them against assault by the forces of aggression which at that very moment were beginning to gather. . . .

If our withdrawal from world affairs after the last war was a contributing factor to the present war and to the economic instability of the past twenty years—and it seems plain that it was—a

withdrawal from the problems and responsibilities of the world after this war would be sheer disaster. Even our relative geographical isolation no longer exists.

At the end of the last war, not a single plane had flown across the Atlantic. Today that ocean is a mere ribbon, with airplanes making regular scheduled flights. The Pacific is only a slightly wider ribbon in the ocean of the air, and Europe and Asia are at our very doorstep.

America must choose one of three courses after this war: narrow nationalism, which inevitably means the ultimate loss of our own liberty; international imperialism, which means the sacrifice of some other nation's liberty; or the creation of a world in which there shall be an equality of opportunity for every race and every nation. I am convinced the American people will choose, by overwhelming majority, the last of these courses. To make this choice effective, we must win not only the war, but also the peace, and we must start winning it now.

To win this peace three things seem to me necessary—first, we must plan now for peace on a world basis; second, the world must be free, politically and economically, for nations and for men, that peace may exist in it; third, America must play an active, constructive part in freeing it and keeping its peace.

When I say that peace must be planned on a world basis, I mean quite literally that it must embrace the earth. Continents and oceans are plainly only parts of a whole, seen, as I have seen them, from the air. England and America are parts; Russia and China, Egypt, Syria and Turkey, Iraq and Iran are also parts. And it is inescapable that there can be no peace for any part of the world unless the foundations of peace are made secure throughout all parts of the world.

This cannot be accomplished by mere declarations of our leaders, as in an Atlantic Charter. Its accomplishment depends primarily upon acceptance by the peoples of the world. For if the failure to reach international understanding after the last war taught us anything it taught us this: even if war leaders apparently agree upon generalized principles and slogans while the war is being fought, when they come to the peace table they make their own interpretations of their previous declarations. So unless today, while the war is being fought, the people of the United States and of Great Britain, of Russia and of China, and of all the other United Nations, fundamentally agree on their purposes, fine and idealistic expressions of hope such as those of the Atlantic Charter will live merely to mock us, as have Mr.

Wilson's Fourteen Points. The Four Freedoms will not be accomplished by the declarations of those momentarily in power. They will become real only if the people of the world forge them into actuality.

When I say that in order to have peace this world must be free, I am only reporting that a great process has started which no man—certainly not Hitler—can stop. Men and women all over the world are on the march, physically, intellectually, and spiritually. After centuries of ignorant and dull compliance, hundreds of millions of people in eastern Europe and Asia have opened the books. Old fears no longer frighten them. They are no longer willing to be Eastern slaves for Western profits. They are beginning to know that men's welfare throughout the world is interdependent. They are resolved, as we must be, that there is no more place for imperialism within their own society than in the society of nations. The big house on the hill surrounded by mud huts has lost its awesome charm.

Our Western world and our presumed supremacy are now on trial. Our boasting and our big talk leave Asia cold. Men and women in Russia and China and in the Middle East are conscious now of their own potential strength. They are coming to know that many of the decisions about the future of the world lie in their hands. And they intend that these decisions shall leave the peoples of each nation free from foreign domination, free for economic, social, and spiritual growth.

Economic freedom is as important as political freedom. Not only must people have access to what other peoples produce, but their own products must in turn have some chance of reaching men all over the world. There will be no peace, there will be no real development, there will be no economic stability, unless we find the method by which we can begin to break down the unnecessary trade barriers hampering the flow of goods. Obviously the sudden and uncompromising abolition of tariffs after the war could only result in disaster. But obviously, also, one of the freedoms we are fighting for is freedom to trade. I know there are many men, particularly in America, where our standard of living exceeds the standard of living in the rest of the world, who are genuinely alarmed at such a prospect, who believe that any such process will only lessen our own standard of living. The reverse of this is true.

Many reasons may be assigned for the amazing economic development of the United States. The abundance of our national resources, the freedom of our political institutions, and the character of

our population have all undoubtedly contributed. But in my judgment the greatest factor has been the fact that by the happenstance of good fortune there was created here in America the largest area in the world in which there were no barriers to the exchange of goods and ideas.

And I should like to point out to those who are fearful one inescapable fact. In view of the astronomical figures our national debt will assume by the end of this war, and in a world reduced in size by industrial and transportation developments, even our present standard of living in America cannot be maintained unless the exchange of goods flows more freely over the whole world. It is also inescapably true that to raise the standard of living of any man anywhere in the world is to raise the standard of living by some slight degree of every man everywhere in the world.

Finally, when I say that this world demands the full participation of a self-confident America, I am only passing on an invitation which the

peoples of the East have given us. They would like the United States and the other United Nations to be partners with them in this grand adventure. They want us to join them in creating a new society of independent nations, free alike of the economic injustices of the West and the political malpractices of the East. But as partners in that great new combination they want us neither hesitant, incompetent, nor afraid. They want partners who will not hesitate to speak out for the correction of injustice anywhere in the world.

Our allies in the East know that we intend to pour out our resources in this war. But they expect us now—not after the war—to use the enormous power in our giving to promote liberty and justice. Other peoples, not yet fighting, are waiting no less eagerly for us to accept the most challenging opportunity of all history—the chance to help create a new society in which men and women the world around can live and grow invigorated by independence and freedom.

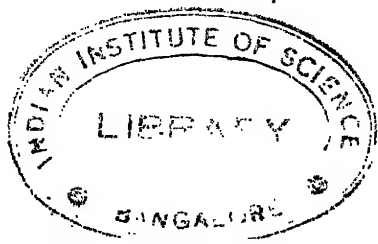
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